Commercial Solvents Corporation

Annual Report 1971

COMMERCIAL SOLVENTS CORPORATION

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JEREMIAH MILBANK, JR.,
Chairman of the Board
ROBERT C. WHEELER,
President & Chief Executive Officer
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EDWARD M. TAYLOR,
Vice President
THOMAS PESCOD,
Controller
HOWARD B. DURBIN,
Secretary
EDWARD J. HOOGSTRA,
Treasurer

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LETTER TO STOCKHOLDERS

Consolidated net earnings for 1971 were $2,087,000 or 65 cents per common share. For the year 1970 our earnings had been $878,000 or 25 cents per share after deducting losses of 33 cents per CSC share attributable to Northwest Nitro-Chemicals Ltd., and before an extraordinary charge. After the extraordinary charge, representing a write-down of our investment in Northwest and the write-off of certain obsolete facilities, CSC showed a 1970 net loss of $5,745,000 or $1.93 per share. Sales of $89,346,000 for 1971 compared with $90,773,000 after excluding those of Northwest for 1970.

Gains were made in the agricultural chemical and industrial explosive fields, new products for animal health, increased international marketing penetration of nitroparaffins and fine chemicals for pharmaceuticals, and improved operations of subsidiaries.

The principal offset to these gains was in certain basic chemicals. Methanol and some of its derivatives were in oversupply due to new capacity coming on stream. The result was greater sales competition and a rapidly declining price situation.

In balance, the improvements offset the adverse factors that influenced our earnings. This, coupled with our decision of a year ago to reduce our holdings in Northwest Nitro-Chemicals, resulted in the increase in our consolidated net earnings for 1971.

The past year saw continued progress in several areas. RALGRO®, a product of CSC's research program,

was introduced in additional countries. In the U.S., we are gaining a larger share of the market as more users confirm the outstanding results obtained through its use as an anabolic agent for implant in beef cattle and feedlot lambs.

A new resin plant and technical service laboratories utilizing nitroparaffin derivatives were brought on stream at Carpentersville, Illinois, in December, 1971. This facility increases our ability to serve the protective coatings and adhesives fields with new formulations.

With the completion of our Trojan-U.S. Powder Division consolidation, earnings contribution from industrial explosives was increased through improved efficiency, better prices and greater market penetration.

In our pharmaceutical operations, we have obtained increased growth in fine chemicals, primarily through our 51% owned subsidiary, Istituto Chemioterapico Italiano. In June, Istituto introduced in Italy C-3, a new drug developed in their research laboratories for myocardial infarction. It is being well received by the medical profession in Italy. Work is moving forward under an Investigational New Drug application filed in the U.S. last year, but a great deal of further work will be required before C-3 may be marketed in this country. Registration of the drug has been approved in Spain, and applications for its registration are being filed in other countries.

Ammonia and ammonium nitrate production in the U.S. were in better balance with demand in 1971. Through improved price-cost relationship and volume gains we were able to increase our profits.

At year end, our methanol plant was put in a stand-by condition. We have strengthened our marketing position by obtaining methanol through co-producer arrangements.

In thermal carbon blacks, results were better than in 1970, when we experienced a lengthy strike.

We increased our gas exploration program in 1971 and improved our gas production position to serve our immediate and future needs.

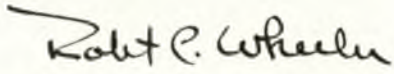
Our research and development programs are putting increased emphasis on specialty chemicals for human health, animal health and specific industrial applications. Continued progress is being made in resorcylic acid lactone research in human health with Sandoz, Ltd.; working agreements of this nature with companies and with universities are an active part of our research and development. Our programs have as a common goal the application of CSC's technical skills to developing specialty products for penetration of U.S. and international markets.

Several organization changes were made to improve our technical marketing ability. We appointed three marketing directors to serve the European, Latin American and Far East areas. Division Managers in the U.S. were appointed for Agricultural Chemicals, Animal Health and Nutrition, Industrial Chemicals, Industrial Explosives, and Polymers and Fine Chemicals Divisions.

Three new Directors were elected to CSC's Board during 1971. They are: John H. Coleman, Deputy Chairman, Executive Vice President and a Director of the Royal Bank of Canada; John G. Copelin, recently retired Vice President of International Telephone and Telegraph Corporation, and David P. Reynolds, Executive Vice President, General Manager and a Director of Reynolds Metals Company.

We enter 1972 in a stronger position to service the diverse fields in which our products are used. We are closely following the impact of national and international economic factors on our markets and operations. Given continued economic growth and greater stability of conditions in the United States and overseas, we are in an improved earnings position.

The men and women of our Company continue to demonstrate their skill and their dedication. They have accepted changes in operations with understanding and enthusiasm, and they have put those changes to work for CSC's greater strength. We are grateful to them, and we are confident that through them our goals for growth will be achieved.



ROBERT C. WHEELER
President

February 14, 1972

1971 REVIEW

Implanting RALGRO for greater weight gain, feed efficiency

Flavor protecting can coatings made with 2-NP

Precision blasting with Trojan/U.S. Powder explosives

Nitroparaffins and Their Derivatives

Worldwide 1971 marketing of these versatile chemicals sustained the improved volume achieved in 1970. Important uses for the nitroparaffins family have been developed in such diversified industries as coatings, adhesives, resins, pharmaceuticals, industrial explosives, photographic chemicals, cosmetics, insecticides, rubber and printing inks. Many companies are using certain of our NP's and their derivatives in their manufacturing processes so as to conform with air pollution and other environmental protection laws now being enforced in many areas.

Intensive coordinated work by our marketing, research and technical service people with customers led to new products and formulations to meet their individual requirements.

The uses of AMP, an NP derivative, were broadened through the development of a formulation which performs modifier functions in latex paints previously obtainable only from several different competitive additives. This derivative continues to gain acceptance as an ingredient in the new generation of clear floor waxes and polishes.

The automotive rubber industry increased its purchase of NMP, another nitroparaffin derivative, which imparts high reliability and performance characteristics to adhesives that bond tire plies and treads.

Nitroethane, a basic NP, was marketed in larger volume for use in the production of pesticides that meet today's requirements.

Animal Nutrition and Veterinary Products

The animal nutrition industry experienced ration cutbacks by swine and poultry raisers during 1971 who sought to delay getting their hogs and birds to market weight until depressed prices for their products improved. This cut into our sales of choline chloride, a B-complex vitamin used for fat metabolism purposes.

We counteracted the effects of this situation on our BACIFERM® business by expanding the sales of these zinc bacitracin antibiotic supplements for use in beef cattle feeds to maintain health and improve feed efficiency. Our BACIFERM produc-

Natural gas for CSC Sterlington operations

High mileage tires made with CSC specialty products

tion capacity was increased by about 50 percent during 1971 through improvements and additions to fermentation and recovery equipment at the Terre Haute, Indiana, plant.

Sales of RALGRO® continued to advance in 1971. This zeranol based product is a development of CSC Research. It increases the rate of weight gain in beef cattle and lambs, reduces the amount of feed required to produce a pound of meat and has no undesirable side effects. Sales were spurred by our introduction last year of a new ball-shaped implant form which makes RALGRO easier to use.

Our zeranol product is now marketed by CSC, its subsidiaries, affiliates and exclusive distributors in the U. S., Spain, France, Germany, Switzerland, Mexico and Argentina.

General Purpose Chemicals

The supply/demand situation in methanol and such key derivatives as formaldehyde and pentaerythritol has severely depressed prices. These pressures are continuing, but we believe a better balance will be achieved as demand follows its traditional climb over the next two to three years. Steps taken by CSC in 1971 are expected to produce better results in this area in the year ahead.

Methylamines, a group of chemical intermediates which we make from methanol and ammonia, showed improvement during the past year. Uses for these products include the manufacture of herbicides and fungicides, man-made fibers and photo-chemical processing materials.

In the ethyl alcohol group, solvents were marketed in large volume shipments to manufacturing customers and in shelf size containers for retail sale under our QUAKERSOL®, QUIXOL® and SHELLACOL® brand names. Industrial applications for denatured alcohols include the production of soaps, aerosols, cosmetics and pharmaceuticals. They serve as general purpose solvents for home and office use. Butanol and several of its derivatives are sold for a wide range of industrial use.

Ammonia

Anhydrous ammonia, the principal source of nitrogen for agriculture and industry, sold briskly in 1971. The completion of the Gulf-Central pipeline linking our plant with much of

the mid-continent agricultural region has added flexibility to our ammonia distribution system. Hi-D®, CSC's granular form of high density solid ammonium nitrate fertilizer, continued to move in good volume for a variety of farm crops. In addition to ammonia's traditional industrial uses, it is proving to be an ecologically desirable neutralizer for certain acid mining effluents. Prices advanced moderately for ammonia products as supply and demand came into balance.

Industrial Explosives

The emphasis which our Trojan-U.S. Powder Division has placed on developing special purpose industrial explosives contributed to profitable new business during 1971. Sales rose for seismic can products used in natural resource exploration and geodetic studies. TROJAN® cast primers and high explosives including TROJEL® and TROMAX® slurries were marketed in increased volume for mining, road construction and pipeline projects. A growing part of our Trojan-U.S. Powder business is the manufacture, for sale by other companies under their labels, of high precision industrial explosives which provide rigid control over blasting operations.

Thermal Carbon Blacks

THERMAX® and P-33® brands of thermal carbon blacks were marketed in powdered and pelletized forms to customers in the United States and many other countries, principally for the manufacture of molded and extruded rubber, cross-linked polyethylene and other plastic products. The unique characteristics of thermal blacks and our rigid control over pellet size make these products particularly desirable in the rubber industry, for which CSC is producing a growing number of other specialty products.

Pharmaceuticals and Food Chemicals

Istituto Chemioterapico Italiano, S.p.A., our subsidiary in Milan, recorded increased acceptance and sales of its pharmaceuticals and fine chemicals in Italy and other coun-

tries. Among the ethical and proprietary drugs made by Istituto which showed significant progress are CLARISCO®, used for therapy and prophylaxis of arteriosclerosis and hypercholestoremia; SINGLETIN®, a tetracycline derivative used as an antibiotic; and RILANCE®, a vitamin B complex supplement.

In January 1972, Laboratorios Llorens, S.A., pharmaceutical firm of Barcelona, Spain, became a subsidiary of CSC International, Ltd. Llorens' ethical pharmaceuticals include ophthalmic preparations, anti-arthritics, antibiotics, anti-hemorrhoidal preparations and vascular products.

Our pharmaceuticals and fine chemicals business improved during the past year. Zinc and regular forms of bacitracin, the antibiotic of choice for treating many skin irritations, were marketed in increased quantities to producers of topical ointments and sterile dressings. Pharmaceutical manufacturers are purchasing greater quantities of the nitroparaffins and derivatives for use in making a variety of pharmaceutical products.

In the food chemicals field, the National Research Council confirmed the acceptability of monosodium glutamate as a food flavor enhancer. CSC is the second largest U.S. producer of this product. With the continued growth of the pre-cooked foods industry, we anticipate an upward trend in MSG sales.

Natural Gas Operations

Our Louisiana and Navarro Gas Production Divisions operate Company-owned wells and gas gathering facilities. They are continuing an aggressive program of drilling and exploration for natural gas, which is an important raw material and fuel for our Sterlington, Louisiana, plant complex.

International

The expansion of our international operations in Europe, Latin America and the Far East is gaining momentum. We are giving particular emphasis to specialty products for pharmaceuticals, for animal health and nutrition, and for the needs of certain manufacturing processes. We believe that an important part of CSC's growth will be achieved in the international area through expansion of our markets, increased application of our technology, and acquisition.

Consolidated Balance Sheet

Assets

	December 31, 1971	December 31, 1970
Current Assets		
Cash	$ 3,967,355	$ 2,685,603
Accounts and notes receivable (less allowance for doubtful accounts, 1971—$167,621; 1970—$148,573)	12,274,942	13,557,225
Federal income tax refund claims	—	640,869
Inventories, at lower of average cost or market		
Finished products and material in process	13,963,991	11,978,553
Raw material and supplies	6,786,520	6,778,738
Prepaid expenses	1,111,652	1,051,142
Total Current Assets	38,104,460	36,692,130
Investments		
Investment in non-consolidated foreign subsidiary, at equity	4,321,126	4,266,517
Other investments	2,504,613	2,319,522
Total Investments	6,825,739	6,586,039
Property, Plant and Equipment, at cost		
Land	1,226,270	1,121,847
Plant, equipment and gas properties	134,221,061	130,568,707
	135,447,331	131,690,554
Less accumulated depreciation, depletion and amortization	85,030,664	80,118,459
Net Property, Plant and Equipment	50,416,667	51,572,095
Patents and Other Intangibles, at amortized cost	508,984	591,831
Deferred Charges	460,085	309,993
	$ 96,315,935	$ 95,752,088

See accompanying notes to financial statements.

Liabilities and Shareholders' Equity

	December 31, 1971	December 31, 1970
Current Liabilities		
Accounts payable	$ 5,453,566	$ 5,285,437
Accrued Federal and Foreign income taxes	1,682,758	511,753
Other accrued liabilities	3,050,582	2,601,128
Current installments on long-term debt	1,772,500	1,697,500
Total Current Liabilities	11,959,406	10,095,818
Long-term Debt and Deferred Taxes		
Long-term debt, less current installments	20,075,000	21,847,500
Deferred Federal and Foreign income taxes	7,914,605	8,194,124
Total Long-term Debt and Deferred Taxes	27,989,605	30,041,624
Shareholders' Equity		
Preferred Stock $20 par value, authorized 1,000,000 shares Series A Preferred Stock, 4.5% Cumulative Convertible, redeemable at $20.50 through December 31, 1973 and $20 thereafter		
Authorized—273,400 shares		
Issued —134,632 shares	2,692,640	2,692,640
Common Stock, $1 par value		
Authorized—6,000,000 shares		
Issued —3,110,120 shares	7,066,694	7,066,694
Additional paid-in capital	8,724,398	8,724,398
Earnings retained in business	39,964,600	39,212,322
	58,448,332	57,696,054
Less treasury common stock, at cost—77,400 shares	2,081,408	2,081,408
Total Shareholders' Equity	56,366,924	55,614,646
	$ 96,315,935	$ 95,752,088

Consolidated Earnings and Summary of Earnings Retained in Business

	Year Ended December 31,	
	1971	1970
Revenues		
Net sales	$89,346,470	$90,772,978
Other income (net)	539,855	663,228
	89,886,325	91,436,206
Costs and Expenses		
Cost of sales	67,760,458	67,899,840
Selling, research and administrative expenses	12,879,949	13,063,003
Depreciation, depletion and amortization (principally straight-line method)	5,452,969	6,058,566
Interest on borrowings	1,015,948	1,175,021
	87,109,324	88,196,430
Earnings from Consolidated Operations before Federal and Foreign Income Taxes	2,777,001	3,239,776
Federal and Foreign Income Taxes	903,566	1,441,084
Earnings from Consolidated Operations	1,873,435	1,798,692
Northwest Nitro-Chemicals Ltd. Operations (after income tax benefits of $942,984)	—	(1,003,516)
Equity in Earnings of Non-Consolidated Foreign Subsidiary and Investments	213,100	83,315
Earnings before Extraordinary Items	2,086,535	878,491
Extraordinary Items Net of Income Taxes	—	(6,623,897)
Net Earnings (Loss)	2,086,535	(5,745,406)
Earnings Retained in Business at Beginning of Year	39,212,322	46,291,985
	41,298,857	40,546,579
Dividends Paid		
Preferred stock ($.90 per share)	121,169	121,169
Common stock ($.40 per share)	1,213,088	1,213,088
	1,334,257	1,334,257
Earnings Retained in Business at End of Year	$39,964,600	$39,212,322
Per Share of Common Stock		
Earnings before extraordinary items	$.65	$ .25
Extraordinary items	—	(2.18)
Net earnings (loss)	$.65	$(1.93)

See accompanying notes to financial statements.

Consolidated Statement of Changes in Financial Position

	Year Ended December 31, 1971	1970
Source of Funds		
Operations		
Earnings before extraordinary items	$ 2,086,535	$ 878,491
Depreciation, depletion and amortization	5,452,969	6,058,566
Increase (decrease) in deferred Federal and Foreign income taxes (relating principally to depreciation)	(279,519)	(2,170,370)
Funds from Operations Before Extraordinary Items	7,259,985	4,766,687
Extraordinary items	—	(6,623,897)
Write-off of obsolete fixed assets	—	3,865,423
Effect of sale and revaluation of interest in Northwest Nitro-Chemicals Ltd.	—	3,273,742
	7,259,985	5,281,955
Net book value of property, plant and equipment sold and retired	129,293	170,320
Decrease in working capital	451,258	375,571
Other	82,847	17,314
Total	$ 7,923,383	$ 5,845,160
Application of Funds		
Dividends paid	$ 1,334,257	$ 1,334,257
Expenditures for property, plant and equipment	4,426,834	3,056,144
Decrease in long-term debt	1,772,500	1,312,500
Other	389,792	142,259
Total	$ 7,923,383	$ 5,845,160
Decrease (Increase) in Components of Working Capital		
Cash	$(1,281,752)	$ (715,891)
Receivables, net	1,923,152	1,452,446
Inventories	(1,993,220)	(622,370)
Prepaid expenses	(60,510)	(149,582)
Notes payable—banks	—	(1,500,000)
Accounts payable and accrued liabilities	1,788,588	(159,885)
Current installments on long-term debt	75,000	137,500
Effect of exclusion of Northwest Nitro-Chemicals Ltd., net	—	1,933,353
Decrease in Working Capital	$ 451,258	$ 375,571

See accompanying notes to financial statements.

Notes to Financial Statements

Principles of Consolidation

The consolidated financial statements include the accounts of all subsidiaries (except a 51% owned Italian company) and an undivided one-half interest in an unincorporated joint venture.

In 1971 the investment in the non-consolidated Italian subsidiary is carried at cost plus equity in the subsidiary's undistributed net earnings since acquisition. The Company's equity in net assets of this subsidiary at December 31, 1971, was approximately $1,070,000. In 1970 and prior years this investment was carried at cost. The prior year's statements have not been restated since dividends received were approximately equal to equity in earnings and the change would be immaterial.

The accounts of consolidated foreign subsidiaries are expressed in U.S. dollars at appropriate rates of exchange.

Extraordinary Items

In December 1970, the Board of Directors approved the write-off of certain facilities relating to discontinued operations, which resulted in an extraordinary charge to 1970 earnings of $2,469,000, after an applicable income tax credit of $2,020,000.

At year end 1970, the Company sold 45% of the outstanding common stock of Northwest Nitro-Chemicals Ltd., reducing its investment to slightly less than 50% of the common stock outstanding, certain debentures and preferred stock. The revaluation of the Company's remaining investment and agreements related to this sale to estimated value was reflected by an extraordinary charge to 1970 earnings of $4,155,000. No effect was given to possible income tax benefits, if any. Northwest's operations were included as a separate item in net earnings through December 31, 1970, the date of the sale. The Company's share of Northwest's 1971 unaudited loss of approximately $1,351,000 has not been included in earnings, since the revaluation in 1970 made provision for a permanent impairment in anticipation of future operating losses. After considering the unaudited results for 1971, the Company's equity in Northwest exceeded its carrying value of $1,441,000.

Long-term Debt

Long-term debt outstanding at December 31, 1971 and 1970, is shown in the following summary:

	1971	1970
3¾% notes payable to insurance companies in annual installments through 1972	$ —	$ 1,600,000
4½% Convertible Subordinated Debentures due July 1, 1991 (annual sinking fund payments of $1,000,000 in 1977 through 1990; and $6,000,000 due at maturity)	20,000,000	20,000,000
Other	75,000	247,500
	$20,075,000	$21,847,500

The loan agreements covering the 3¾% notes payable to insurance companies impose certain restrictions on the declaration of dividends other than stock dividends.

The 4½% Convertible Subordinated Debentures are convertible into common stock of the Company at $68 per share and 294,118 shares of common stock were reserved for this purpose at December 31, 1971. The Debentures are subject to redemption at the option of the Company at prices ranging from 103.25% of the principal amount through June 30, 1972 to 100% of the principal amount on July 1, 1986 and thereafter. The Indenture relating to the Debentures imposes certain restrictions including, among others, those pertaining to the payment of dividends other than stock dividends.

At December 31, 1971, $437,000 of earnings retained in business was free of the restrictions contained in the Company's loan agreements.

Shareholders' Equity

The Series A Preferred Stock, 4.5% cumulative convertible, has voting rights and is convertible on the basis of .597 of a share of common stock for each one share of such preferred stock. There were no conversions of Series A Preferred Stock during 1971 or 1970.

At December 31, 1971, 80,377 shares of common stock were reserved for conversion of the outstanding Series A Preferred Stock.

Stock Options

The Company has a qualified stock option plan under which options to purchase common shares may be granted

at a price not less than 100% of the fair market value at the date of grant. Options are for a term not to exceed five years and become exercisable one year after the date of grant. The following table sets forth certain information concerning the plan during 1971 and 1970:

	1971		1970	
	Common Shares	Per Share	Common Shares	Per Share
Options outstanding —beginning of year	88,500	$22.25 to $40.75	84,500	$22.25 & $40.75
Options granted	None	—	4,000	$25.00
Options expired or cancelled	(800)	$40.75	None	—
Options outstanding —end of year	87,700	$22.25 to $40.75	88,500	$22.25 to $40.75

During 1971 and 1970, options to purchase 4,000 shares and 43,200 shares, respectively, became exercisable.

At December 31, 1971, 12,300 shares were reserved for which no options had been granted and all outstanding options were exercisable.

Pensions

The Company has pension plans covering substantially all of its employees. The total pension expense was $885,998 for the year 1971 and $688,383 for 1970, which included, as to certain of the plans, amortization of prior service cost over periods up to 40 years. The Company's policy is to fund pension costs accrued. The excess of actuarially computed vested benefits over funded amounts and accruals approximated $700,000 at December 31, 1971.

Earnings Per Share

Earnings per share are based on the average number of common shares outstanding during the year. There would be no material dilution of such earnings per common share if all shares reserved for the 4½% Subordinated Debentures and outstanding preferred stock were converted and all stock options were exercised.

Investment Credit

The Company recognizes investment tax credit in the year eligible assets are placed in service. Investment credit amounted to approximately $60,000 in 1971.

Report of Certified Public Accountants

The Board of Directors and Shareholders
COMMERCIAL SOLVENTS CORPORATION

We have examined the accompanying consolidated balance sheet of Commercial Solvents Corporation at December 31, 1971 and the related consolidated statements of earnings and summary of earnings retained in business and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We have previously made a similar examination of the financial statements of the prior year.

In our opinion, the statements mentioned above present fairly the consolidated financial position of Commercial Solvents Corporation at December 31, 1971 and 1970, and the consolidated results of operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

277 Park Avenue
New York, N. Y. 10017
February 14, 1972

ARTHUR YOUNG & COMPANY

Five Year Summary

($000 omitted)

	1971	1970	1969	1968	1967(a)
Operating Record					
Net sales (b)	$ 89,346	$ 90,773	$ 94,424	$ 95,508	$ 77,379
Earnings before extraordinary items	2,087	879	2,174	1,512	4,411
Earnings before extraordinary items per common share	.65	.25	.68	.46	1.42
Net earnings (loss)	2,087	(5,745) (c)	2,174	1,512	4,411
Net earnings (loss) per common share	.65	(1.93) (c)	.68	.46	1.42
Cash dividends paid per common share	.40	.40	.40	.90	1.20
Depreciation, depletion and amortization (b)	5,453	6,059	5,780	5,665	4,102
Financial Position (d)					
Total assets	$ 96,316	$ 95,752	$118,058	$124,716	$128,236
Current assets	38,104	36,692	42,105	47,560	50,025
Current liabilities	11,959	10,096	15,133	18,700	19,160
Working capital	26,145	26,596	26,972	28,860	30,865
Property, plant and equipment (gross)	135,447	131,691	153,269	147,238	141,451
Property, plant and equipment (net)	50,417	51,572	68,957	69,807	70,667
Long-term debt	20,075	21,848	28,755	32,934	35,419
Shareholders' equity	56,367	55,615	62,694	61,855	63,179
Employees and Stockholders					
Number of employees at year-end (b)	2,371	2,509	2,705	2,723	2,828
Wages and salaries (b)	$ 21,583	$ 21,780	$ 21,055	$ 20,867	$ 16,564
Cost of pensions and other benefits (b)	$ 3,081	$ 2,632	$ 2,506	$ 2,428	$ 1,766
Number of common shareholders at year-end	14,041	14,544	14,980	15,254	15,783
Average number of common shares outstanding	3,032,720	3,032,720	3,032,720	3,032,620	3,024,504

(a) Includes Trojan Powder for four months in 1967.

(b) To conform with the 1970 presentation of consolidated earnings these data have been restated for the years 1967 through 1969 to exclude Northwest Nitro-Chemicals Ltd.

(c) After deducting extraordinary items of $6,624,000, or $2.18 per common share.

(d) Includes Northwest Nitro-Chemicals Ltd. for the years 1967 through 1969.

Transfer Agent

Chemical Bank
20 Pine Street, New York, N. Y. 10015

Registrar

The Chase Manhattan Bank, N.A.
One Chase Manhattan Plaza,
New York, N. Y. 10015

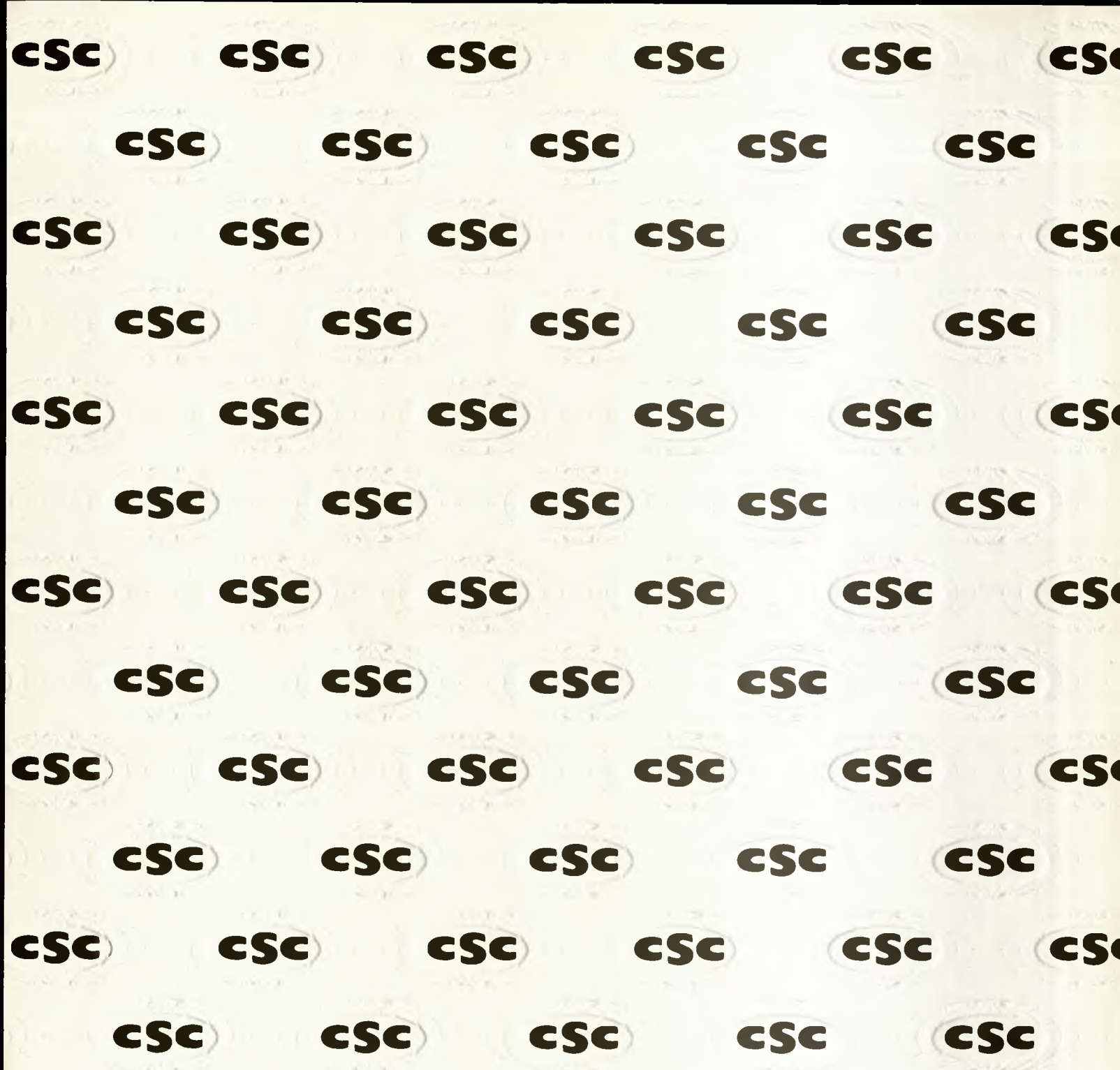
The annual meeting of stockholders will be held on April 19, 1972 at 9:30 a.m. in the First National Bank Building, corner of Light and Redwood Streets, Baltimore, Maryland. A notice of the meeting, proxy statement and form of proxy is being sent to all stockholders. It will assist the management in preparing for the meeting if stockholders who do not expect to attend the meeting in person will sign, date and return the proxy promptly.

Commercial Solvents Corporation
245 Park Avenue
New York, N. Y. 10017

LITHO IN U.S.A.

Commercial Solvents Corporation

Annual Report 1972



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Letter to Stockholders

In recent years we have been making significant changes in the nature and direction of CSC's business.

We have been developing our profit base primarily through the manufacturing and marketing of higher margin specialty chemicals and by increasing our penetration of international markets for many of these products.

We have been giving greater emphasis to life sciences research in human and animal health and to specialty chemicals research for industrial applications.

CSC today is emerging as a multi-national chemical specialties company, no longer mainly dependent either on commodity chemicals or upon conditions in any one country for its sales and earnings. This is being achieved through the selective expansion of specialty operations, development of our own technology, acquisitions, and joint ventures. At the same time, we are aggressively continuing certain commodity chemical operations where an established market position and investment in facilities for low-cost manufacturing give CSC reasonable profit opportunities.

Much remains to be done before we fully achieve our planned change of direction. The actions we have taken, however, made important contributions to our results in 1972.

Net sales for the year ended December 31, 1972 were $111,198,000, the highest in the Company's history. This compared with $99,639,000 for 1971. Consolidated net earnings for 1972 were $2,119,000, or 66 cents per outstanding common share. Earnings were $2,087,000, or 65 cents per share, for the preceding year. Figures for 1971 have been restated to reflect the consolidation on January 1, 1972 of Istituto Chemioterapico Italiano, our Italian pharmaceuticals and fine chemicals subsidiary in which CSC has a 51 percent interest.

With the diversity of our broader profit base in the U.S. and other countries, substantial improvements in some areas of our business offset a variety of negative factors we experienced during 1972. Principal sources of increased profit included international operations and our U.S. operations in ammonia, animal health and nutrition products, and industrial explosives. Lower contributions in other areas reflected carbon black operations, declining methanol prices, plant operating problems and increased expenses. Net earnings were favorably affected by factors which reduced the amount provided for Federal and foreign income taxes.

In the U.S. we are concentrating our operations in specific areas where we have technology in specialty chemicals for application in the chemical industry, animal health and nutrition, pharmaceutical fine chemicals, and special purpose industrial explosives. We

have restructured our corporate organization to provide more direct authority and responsibility for each of our business areas. These profit centers have been designed to serve specific markets so that we can better understand the needs of the market, and better serve that market.

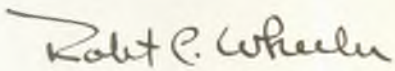
The emphasis of our business in international fields is in three areas — special purpose industrial chemicals, pharmaceuticals and fine chemicals which contribute to human health, and animal and veterinarian specialty products to help increase the efficiency of food production. Responsibility for programs to market CSC products to meet needs and growth opportunities in Latin America, Europe and the Far East has been assigned to marketing managers for each of those areas. We have organized our various international operations under nationals of each country in which we are located.

In May, 1972, William S. Leonhardt was elected Executive Vice President and is responsible for U.S. and international operations. Mr. Leonhardt, who has been with Commercial Solvents since 1939, became a Vice President in 1959 and a Director in 1963.

In line with the Company's policy of Director retirement at age 72, Walter C. Berger, G. Hilmer Lundbeck and Maynard C. Wheeler will leave the CSC Board at the time of the April, 1973 Annual Meeting of Stockholders. Mr. Berger, former Administrator of the Commodity Stabilization Service of the U.S. Department of Agriculture, and Mr. Lundbeck, Special Senior Representative of the Swedish American Line, first joined the Board in 1961. Mr. Wheeler has been part of CSC for 50 years. During his distinguished career with the Company, he has been an employee, an officer, a Director, President and Chief Executive and Chairman of the Board. We are deeply grateful for the outstanding contributions each of these respected men has made to the Corporation.

The impact of Phase III policies on U.S. and world economies, and the total effect on our operations, cannot yet be known, but we expect improved results in 1973. We project increased development of our profitable specialty chemical markets and further expansion of international operations, which should enable the Company to report progress in earnings as well as sales.

Our thanks go to the men and women of CSC whose enthusiasm and skill have converted many plans for change into realities of operation. Through their dedicated efforts, the full benefits of our emphasis on specialty chemicals and international operations will come in subsequent years as further phases in the planned re-direction of CSC are achieved.



R. C. Wheeler
President

February 26, 1973

SALES AND EARNINGS

CSC's consolidated net sales in 1972 reached a record of $111,198,000, an increase of $11,559,000, or 12%, over 1971 sales of $99,639,000. Net earnings after taxes were $2,119,000, slightly higher than the prior year's net earnings of $2,087,000. Earnings per share for 1972 amounted to $.66 compared with $.65 in 1971.

All segments of CSC's business contributed to the increase in sales, with the greatest improvement taking place in international operations and in ammonia and industrial explosives operations in United States markets. Emphasis on the development of specialty chemicals continued in 1972, and these items accounted for approximately 56% of total sales volume. Marketing profit (gross profit less selling expense) rose in 1972 compared to the previous year as a result of increased sales, but the improvement was more than offset by increased expenses. Earnings before taxes were $3,452,000, slightly less than the figure of $3,638,000 for 1971.

International sales accounted for 21% of total volume in 1972, and international operations in the same period contributed 39% to total marketing profit.

CAPITAL EXPENDITURES

Capital expenditures in 1972 were $2,809,000 and related primarily to the modernization of existing facilities. Expenditures in 1971 of $5,643,000 included completion of a new resins plant and technical service laboratories utilizing nitroparaffin derivatives.

Depreciation in 1972 amounted to $6,400,000, an increase of 9.8% over the $5,827,000 applicable to the prior year.

WORKING CAPITAL

Working capital amounted to $33,341,000 at the year end, an increase of 16% over the $28,733,000 at the end of last year. A substantial part of this increase is due to higher accounts receivable attributable in part to increased sales volume during the fourth quarter of 1972.

INCOME TAXES

Favorable factors relating to the provision for taxes, principally depletion allowances and higher investment tax credit, contributed to increased net earnings in 1972. Federal and foreign income taxes for 1972, net after an investment tax credit of $151,000, were $1,078,000. Income taxes for 1971 were $1,354,000, net of a $60,000 investment tax credit.

The Internal Revenue Service has issued notice of proposed tax deficiencies with respect to the years 1962 through 1967. The major portion of the proposed deficiencies are being appealed, and outside tax counsel and management are of the opinion that any additional taxes which might become payable applicable to such deficiencies will not have a material effect on the financial statements.

EQUITY OF SHAREHOLDERS

Common shareholders' equity on December 31, 1972 of $54,459,000 compared with $53,674,000 on the same date in 1971. Book value of $17.96 per share for the 3,032,720 average common shares outstanding in 1972 compares with $17.70 per share on the same average number of outstanding common shares in 1971.

REPORT
U.S. OPERATIONS

SPECIALTY CHEMICALS FOR INDUSTRY

An important area of CSC's business is the development and sale of specialty chemicals for such diversified applications as coatings, resins, pharmaceuticals, cosmetics, insecticides, rubber and printing inks.

As part of a continuing program to provide customers in the printing industry with technical data on 2-Nitropropane, a new CSC publication, Prink Notes, informs formulators and manufacturers about the versatility of this product. 2-NP has an established position in the ink industry, based on approval for its use under important air pollution regulations and its ease of formulation into a variety of end products with superior properties. Among these are inks that dry quickly and completely on foil and other wrappings to protect food.

In the paint industry, manufacturers continue to adopt formulations based on AMP-95. It is used increasingly in the manufacture of latex paints and as an additive to assist in the formulation of mildew-resistant paints, free of toxic mercury. AMP-95 is also an excellent pigment dispersant in water systems. In non-aqueous systems, paint manufacturers are advised to use ALKATERGE®-T as a pigment dispersant which imparts better gloss retention and durability to the finished coating.

The need by the machine tool industry for a bacteriostat in cutting fluids is being met with the development of BIOBAN® P-1487. It can be used in both oil and water emulsions to protect machine tool operators against possible microbial contamination. At the same time BIOBAN P-1487 inhibits decomposition of the emulsion and thus protects equipment against corrosion.

In addition to AMPD, a well-known ingredient in many hairsprays, and AMP, a widely-used emulsifying agent in cleaners and polishes, our chemical specialty products in the aminohydroxy series now include DMAMP-80. This is a powerful emulsifier with excellent potential in floor finishes, industrial emulsions and other applications where corrosion inhibition is a factor.

Other of our chemical specialties are important ingredients in clear, long-wearing floor coatings; in adhesives used by the automotive tire industry to bind tire cord to synthetic rubber, and in solvent formulations that meet requirements established by new anti-pollution legislation.

In pharmaceutical fine chemicals, sales of zinc bacitracin, bacitracin and TRIS AMINO® reached new highs in 1972. Approval by the Food and Drug Administration of sterile bacitracin and sterile zinc bacitracin for topical and ophthalmic ointments should further enlarge CSC's share of the market as the only domestic supplier of sterile bacitracin in bulk.

Certification is also expected to permit pharmacists to compound zinc bacitracin, purchased in commercial quantities, for dental packs, custom prescriptions and other products specified by doctors and dentists.

ANIMAL HEALTH AND NUTRITION

Sales of RALGRO®, CSC's brand of zeranol anabolic implant for increasing the rate of weight gain in beef cattle and feedlot sheep, have reached record levels in 1972 in the U.S. and abroad. Lower sales volumes for BACIFERM® zinc bacitracin feed supplements were due primarily to rapidly rising feed prices which have caused livestock and poultry producers to reduce purchases of medicated feed additives by some 7 percent during the past year.

Strong, continued demand, particularly for RALGRO and choline chloride; better, more efficient market coverage, and effective sales promotion and advertising campaigns have contributed to higher sales and profit improvement in this growing segment of our business.

Toward the latter part of the year, Brae Laboratories, Inc., was formed as a wholly-owned CSC subsidiary to service the ethical veterinary market exclusively. At the present time Brae Laboratories markets the zeranol brand anabolic implant, RALABOL®, and other proprietary animal health products will be added to the Brae line during 1973.

INDUSTRIAL EXPLOSIVES

The Trojan-U.S. Powder Division of CSC manufactures and markets industrial explosives, primers and accessories used in the construction, mining, quarrying and seismic industries. During 1972, the Division made important strides in broadening the market for its proprietary products as well as for those manufactured under other company labels. Trojan-U.S. Powder has added to its staff of specialists who administer sales and customer service programs in various regions throughout the United States.

A recent development at Trojan-U.S. Powder is a system to enable law enforcement agencies to trace the source of explosives used in unlawful explosions, through the presence of luminescent materials incorporated in the explosives. The Division is prepared to grant licenses under its patents for the detection system.

AMMONIA

Demand for ammonia was strong in the U.S. agricultural and chemical industries. CSC's ammonia production climbed to record levels last year.

We have the flexibility of being able to move ammonia and other products from our Louisiana operations by barge, pipeline, truck or rail. Last summer, two new locks were installed on the Ouachita River, which have allowed larger barges to navigate between Sterlington and the Mississippi.

THERMAL CARBON BLACK

CSC has an established position in carbon black markets in the rubber and extruded plastic industries through the operations of our Thermatomic Carbon Company Division. Our THERMAX® and P-33® brands of thermal blacks in powdered and pelletized forms are important ingredients in the manufacture of extruded rubber, cross-linked polyethylene and other plastic products in the U.S. and abroad. Late in 1972, market demand and prices for our carbon blacks improved somewhat, after declining for several years.

GENERAL PURPOSE CHEMICALS

CSC's commodity products for industrial use sold in improved volume but failed to generate any upswing in profitability. Most of our products in this grouping, which includes food chemicals, ethyl alcohol, and methanol, have been severely affected by rising costs, unusual plant operating problems and unfavorable price structures. Consequently, we have geared our operations in these areas to individual market conditions. In methanol, where there are signs of a potential market turnaround to greater volume and profitability, we are continuing to keep our plant on a stand-by basis and to obtain product through a co-producer arrangement.

NATURAL GAS OPERATIONS

CSC's Louisiana and Navarro Gas Production Divisions are engaged in the exploration and development of our natural gas reserves and facilities in Louisiana. Natural gas is used by our Sterlington plants as a source of energy and as a raw material in the production of specialty chemicals, agricultural chemicals and thermal carbon blacks.

REPORT
CANADIAN OPERATIONS

Sales of ammonium phosphate and ammonium nitrate fertilizers by Northwest Nitro-Chemicals Ltd., in which CSC has a slightly less than 50 percent interest, advanced sharply in 1972. Heavy grain commitments for export and for U.S. consumption are indicative of continued strong demand for fertilizers.

Early in 1973, Northwest Nitro-Chemicals announced the acquisition of Cancarb Limited, recently formed to construct and operate a thermal carbon black plant in Medicine Hat, Alberta. Cancarb is expected to begin production in the last half of 1973. Natural gas for raw material will be supplied under long-term contract with the City of Medicine Hat.

REPORT
INTERNATIONAL OPERATIONS

During 1972, CSC enjoyed its best year in international business in terms of sales volume, profitability and market penetration. Sales in western Europe alone accounted for approximately 15 percent of our total sales.

Products sold in our international operations include many of those manufactured by CSC in the United States as well as in our foreign manufacturing operations. Three primary product categories, specialty chemicals for industry, pharmaceuticals and specialty animal health and nutrition products, are marketed in Europe, the Far East and Latin America. Sales are made through direct exports, distributors, joint venture arrangements and through subsidiary and affiliated companies.

CSC subsidiaries and affiliates which are involved in our multi-national operations as we enter 1973 include:

Italy — Istituto Chemioterapico Italiano, developer, producer and distributor of pharmaceuticals and fine chemicals marketed in Italy and in many other countries. Istituto, which serves as our pharmaceuticals research base in Europe, discovered and developed C-3, a drug for myocardial infarction. The new drug was introduced in Italy in June 1971, and our Spanish subsidiary, Laboratorios Llorens, introduced it in Spain in September 1972. Istituto is pursuing further registrations of C-3 in other countries, including the United States. In November 1972, following clearance by Italian health authorities, Istituto introduced a new drug, ARTERIUM®, for the treatment of arteriosclerosis.

Germany — CSC-Chemie, sales and technical service organization for specialty chemicals used in industry, and for animal health and nutrition products, serving customers throughout the Common Market countries. CSC-Chemie will begin construction of a new nitroparaffins plant in Ibbenbüren, West Germany, in 1973. This constitutes a major expansion of our position in Europe as a producer and marketer of special purpose industrial and pharmaceutical chemicals. Initial production from this new facility is scheduled for 1974. Its products will be marketed in the European Common Market and other selected areas.

Spain — Indukern, an animal health and nutrition products and chemicals company; Laboratorios Llorens, a producer and distributor of ethical pharmaceuticals, and Laboratorios Calier, marketer of animal health and veterinary products.

Portugal — Vetiquima, animal health, nutrition and veterinary products company.

In Europe RALGRO® anabolic implant for beef cattle and sheep is presently being marketed in France, Germany, Spain and Switzerland. This product of CSC resorcylic acid lactone research has also been registered in Great Britain.

Far East — Special purpose industrial chemicals are marketed by our International Division to Japan and other countries in Australasia. Sales in Japan last year reached record levels. Broader technical sales coverage for NP's and for animal health products was established in Australia and in the Middle East. RALGRO was registered in New Zealand, and registrations for this anabolic product are being pursued in other Australasian countries.

Mexico — Comsolmex, blending, packaging, marketing and technical services for industrial specialty chemicals, animal health and nutrition products and agricultural chemicals to customers throughout Central America. Last year, the volume of chemicals sold in these markets achieved a substantial increase from previous years, and additional volume gains are foreseen this year. Catalisis, manufacturer of certain specialty chemicals for industrial and animal nutrition use.

Argentina — Dismedic, producer and marketer of pharmaceuticals and of veterinary animal health and nutrition products to customers in this important meat producing country.

Sales of animal health and nutrition products, particularly RALGRO, have grown sharply in Argentina, Mexico, Paraguay and Uruguay. In Brazil, a registration for RALGRO was applied for.

REPORT RESEARCH

Many of our most useful and profitable products have derived over the years from CSC research and development. Today, increased research studies are being directed toward the discovery of new products and new applications in the Company's major fields of endeavor.

In the chemical area the Company is, among other activities, seeking new and improved emulsifiers, waxes, adhesives, and special products for the coatings, textile and paper industries.

High on the list of priorities in CSC's research work in animal health and nutrition is the investigation of additional new anabolic agents from the RAL's. We are studying products for treatment of such disorders in animals as respiratory ailments, mastitis, shipping fever and scours.

Pharmaceutical research work is moving forward in our laboratories in Indiana and Italy, as well as under agreements with various other organizations. Major areas of interest in the human health field are products for the cardiovascular and endocrine systems, and for menopausal and post-menopausal syndromes and other geriatric conditions. We are continuing resorcylic acid lactone research in human health.

COMMERCIAL SOLVENTS CORPORATION

Consolidated Earnings and Earnings Retained in Business

	Year Ended December 31,	
	1972	1971
Revenues		
Net sales	$111,197,871	$ 99,639,304
Other income (net)	883,992	521,299
	112,081,863	100,160,603
Costs and expenses		
Cost of sales	82,255,105	71,827,193
Selling, research and administrative expenses	18,987,964	17,852,478
Depreciation, depletion and amortization	6,400,177	5,827,328
Interest on borrowings	986,315	1,015,948
	108,629,561	96,522,947
Earnings from operations before Federal and foreign income taxes	3,452,302	3,637,656
Federal and foreign income taxes	1,077,874	1,354,141
Earnings from operations	2,374,428	2,283,515
Minority interest in net earnings of subsidiary	255,642	196,980
Net earnings	2,118,786	2,086,535
Earnings retained in business at beginning of year	39,964,600	39,212,322
	42,083,386	41,298,857
Dividends paid		
Preferred stock ($.90 per share)	121,169	121,169
Common stock ($.40 per share)	1,213,088	1,213,088
	1,334,257	1,334,257
Earnings retained in business at end of year	$ 40,749,129	$ 39,964,600
Net earnings per share of common stock	$ .66	$ .65

See accompanying notes to financial statements.

COMMERCIAL SOLVENTS CORPORATION

Consolidated Balance Sheet

Assets	December 31, 1972	December 31, 1971
Current assets		
Cash (including time deposits of $2,200,000 in 1972 and $1,200,000 in 1971)	$ 6,064,137	$ 4,301,038
Accounts and notes receivable (less allowance for doubtful accounts, 1972 — $230,197; 1971 — $174,021)	19,437,711	14,432,689
Inventories		
Finished products and material in process	15,497,543	16,175,458
Raw material and supplies	6,997,477	7,633,225
Prepaid expenses	1,235,435	1,123,900
Total current assets	49,232,303	43,666,310
Investments	2,828,973	2,552,598
Property, plant and equipment, at cost		
Land	1,411,184	1,411,184
Plant, equipment and gas properties	141,031,741	139,449,515
	142,442,925	140,860,699
Less accumulated depreciation, depletion and amortization	94,256,792	88,971,804
Net property, plant and equipment	48,186,133	51,888,895
Goodwill, patents and other intangibles	3,929,716	3,979,463
Deferred charges	468,272	358,750
	$104,645,397	$102,446,016

See accompanying notes to financial statements.

Liabilities and Shareholders' Equity	December 31, 1972	December 31, 1971
Current liabilities		
Accounts payable	$ 8,310,503	$ 6,288,651
Accrued Federal and foreign income taxes	2,776,552	2,368,595
Other accrued liabilities	4,712,279	4,452,880
Current installments on long-term debt	92,242	1,823,424
Total current liabilities	15,891,576	14,933,550
Long-term debt, less current installments	20,687,452	20,327,866
Deferred Federal and foreign income taxes	7,832,250	8,375,681
Other non-current liabilities	1,848,439	1,416,048
Minority interest in subsidiary	1,234,227	1,025,947
Shareholders' equity		
Preferred stock $20 par value, authorized 1,000,000 shares		
Series A preferred stock, 4.5% cumulative convertible, redeemable at $20.50 through December 31, 1973 and $20.00 thereafter		
Authorized — 273,400 shares		
Issued — 134,632 shares	2,692,640	2,692,640
Common stock, $1 par value		
Authorized — 6,000,000 shares		
Issued — 3,110,120 shares	7,066,694	7,066,694
Additional paid-in capital	8,724,398	8,724,398
Earnings retained in business	40,749,129	39,964,600
	59,232,861	58,448,332
Less treasury common stock, at cost — 77,400 shares	2,081,408	2,081,408
Total shareholders' equity	57,151,453	56,366,924
	$104,645,397	$102,446,016

COMMERCIAL SOLVENTS CORPORATION

Consolidated Statement of Changes in Financial Position

	Year Ended December 31, 1972	1971
Source of funds		
Operations		
Earnings	$ 2,118,786	$ 2,086,535
Depreciation, depletion and amortization	6,400,177	5,827,328
(Decrease) in deferred Federal and foreign income taxes	(543,431)	(279,519)
Foreign severance indemnity — net	386,589	178,403
Funds from operations	8,362,121	7,812,747
Net book value of property, plant and equipment sold and retired	112,054	711,255
Increase (decrease) in long-term debt	359,586	(1,519,634)
Other — net	194,307	108,900
Total	$ 9,028,068	$ 7,113,268
Application of funds		
Dividends paid	$ 1,334,257	$ 1,334,257
Expenditures for property, plant and equipment	2,809,469	5,642,919
Increase (decrease) in investments	276,375	(455,502)
Increase in working capital	4,607,967	591,594
Total	$ 9,028,068	$ 7,113,268
Increase (decrease) in components of working capital		
Cash	$ 1,763,099	$ 1,561,749
Receivables, net	5,005,022	(1,605,075)
Inventories	(1,313,663)	2,980,517
Prepaid expenses	111,535	53,455
Accounts payable and accrued liabilities	(2,689,208)	(2,273,128)
Current installments on long-term debt	1,731,182	(125,924)
Increase in working capital	$ 4,607,967	$ 591,594

See accompanying notes to financial statements.

SUMMARY OF ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of all material majority-owned subsidiaries and an undivided one-half interest in an unincorporated joint venture. Immaterial majority-owned subsidiaries not consolidated and all other investments (except the investment in Northwest Nitro-Chemicals Ltd.) in companies in which Commercial Solvents Corporation ("CSC") owns 20% or more of the voting stock are carried at cost plus equity in undistributed net earnings since acquisition.

In 1972, CSC adopted the policy of consolidating the accounts of its 51% owned Italian pharmaceutical company, Istituto Chemioterapico Italiano, S.p.A. ("Istituto"). Accordingly, the consolidated financial statements have been restated to include the accounts of Istituto. The restatement does not affect CSC's net earnings since the statement of earnings for 1971, as previously reported, included the Company's equity in Istituto's 1971 net earnings.

Current assets and liabilities recorded in the accounts of consolidated foreign subsidiaries are expressed in U.S. dollars at current rates of exchange; long-term assets and liabilities are expressed in U.S. dollars at historical rates of exchange; profit and loss items are expressed in U.S. dollars at the rates of exchange which prevailed during the period. Gains and losses resulting from the translation of amounts recorded in the accounts of consolidated foreign subsidiaries are recognized in the period in which they arise. There is no adverse financial impact to the 1972 financial statements as a result of the United States dollar devaluation of February 12, 1973.

INVENTORIES

Inventories of finished products are stated at the lower of cost or realizable market; material in process and raw material and supplies are stated at the lower of cost or replacement market. Costs represent standard cost or average cost for finished products and average cost determined monthly for all other inventories.

INVESTMENTS

Investments at December 31, 1972 and 1971 consist primarily of investments in Northwest Nitro-Chemicals Ltd. ("Northwest"), and in unconsolidated subsidiaries and other companies, as described under the caption "Principles of Consolidation".

At December 31, 1970, CSC sold 45% of the outstanding common shares of Northwest, thereby reducing its investment in Northwest to slightly less than 50% of the outstanding common shares and certain debentures and preferred stock. CSC determined that the only value remaining in its investment in Northwest and in agreements relating to this sale was approximately $1,441,000, represented by debentures and preferred stock. The resulting write-down was reflected by an extraordinary charge to 1970 earnings.

Northwest's unaudited consolidated net earnings (loss) was approximately $1,097,000 and $(1,351,000) for the years ended December 31, 1972 and 1971, respectively. No portion of such accumulated loss since the revaluation has been included in the Company's earnings since CSC's investment in Northwest's common stock was completely written off in 1970. After considering the unaudited results for the two years ended December 31, 1972, CSC's equity in Northwest exceeded its carrying value.

PROPERTY, PLANT AND EQUIPMENT

Depreciation and amortization of plant facilities has been provided on the straight-line method. The estimated lives used in calculating such depreciation and amortization were as follows:

Buildings	5 to 50 years
Equipment	3 to 33¼ years
Office furniture	5 to 15 years
Leasehold improvements	Over life of lease
Gathering lines and field equipment	15 years

Depletion of gas and gas rights and depreciation of gas wells have been provided on the unit-of-production method over the estimated recoverable reserves.

It has been the policy of the Company to charge to expense the cost of maintenance, repairs and minor renewals. Whenever any major item of equipment is purchased as a replacement, the cost is capitalized and the property, plant and equipment and accumulated depreciation and amortization accounts are adjusted for the equipment replaced. Upon sale or retirement of property, plant and equipment, the cost and accumulated depreciation, depletion and amortization are removed from the respective accounts and any gain or loss is included in income for the year.

GOODWILL, PATENTS AND OTHER INTANGIBLES

Excess cost of investments over equity in the net assets of consolidated subsidiaries acquired prior to November 1, 1970 of $3,748,033 at December 31, 1972 and 1971 is not being amortized since in the opinion of CSC there has been no impairment in value. Patents and other intangible assets are being amortized on the straight-line basis over 4 to 10 year periods.

RESEARCH AND DEVELOPMENT COSTS

Research and development costs are charged to operations as incurred.

INCOME TAXES

Items of income or expense are sometimes recognized in one accounting period for computation of income tax and in another accounting period for financial reporting purposes. In addition, there are certain differences in income or expense between financial statement and tax earnings that are not timing differences but are permanent in nature. The provision for taxes is based on financial statement income adjusted for the permanent differences only and, as a result, the income tax provision shown in the statement of Consolidated Earnings and Earnings Retained in Business for a given year may differ from the amount actually paid for that year. CSC deferred taxes arise principally from the difference in the Company's method of calculating depreciation for tax and book purposes and permanent differences relate primarily to additional depletion on the Company's gas wells allowed under applicable tax statutes.

CSC has not provided for income taxes on the tax deferred portion of the earnings of a domestic international sales corporation (DISC) since the Company has plans for the investment of these funds in qualified export related operations.

CSC recognizes investment tax credit in the year eligible assets are placed in service. Investment tax credit amounted to $151,000 in 1972 and $60,000 in 1971.

EARNINGS PER SHARE

Earnings per share are based on the average number of common shares outstanding during the year. There would be no material dilution of such earnings per common share if all shares reserved for the 4½% Subordinated Debentures and outstanding preferred stock were converted and all stock options were exercised.

LONG-TERM DEBT

Long-term debt outstanding at December 31, 1972 and 1971 is shown in the following summary:

	December 31, 1972	December 31, 1971
4½% Convertible Subordinated Debentures due July 1, 1991 (annual sinking fund payments of $1,000,000 in 1977 through 1990; and $6,000,000 due at maturity)	$20,000,000	$20,000,000
Other	687,452	327,866
	$20,687,452	$20,327,866

The 4½% Convertible Subordinated Debentures are convertible into common stock of the Company at $68 per share and 294,118 shares of common stock were reserved for this purpose at December 31, 1972. The Debentures are subject to redemption at the option of the Company at prices ranging from 103% of the principal amount through June 30, 1973 to 100% of the principal amount on July 1, 1986 and thereafter. The Indenture relating to the Debentures imposes certain restrictions including, among others, those pertaining to the payment of dividends other than stock dividends.

At December 31, 1972, $7,677,000 of earnings retained in business was free of the restrictions contained in the Indenture relating to such Debentures.

SHAREHOLDERS' EQUITY

The Series A Preferred Stock, 4.5% cumulative convertible, has voting rights and is convertible on the basis of .597 of a share of common stock for each share of such preferred stock. There were no conversions of Series A Preferred Stock during 1972 or 1971.

At December 31, 1972, 80,377 shares of common stock were reserved for conversion of the outstanding Series A Preferred Stock.

STOCK OPTIONS

The Company has a qualified stock option plan under which options to purchase common shares may be granted at a price not less than 100% of the fair market value at the date of grant. Options are for a term not to exceed five years and become exercisable one year after the date of grant. The following table sets forth certain information concerning the plan during 1972 and 1971:

	1972		1971	
	Common Shares	Per Share	Common Shares	Per Share
Options outstanding — beginning of year	87,700	$22.25 to $40.75	88,500	$22.25 to $40.75
Options granted	None	—	None	—
Options expired or cancelled	(40,500)	$40.75	(800)	$40.75
Options outstanding — end of year	47,200	$22.25 to $25.00	87,700	$22.25 to $40.75

At December 31, 1972, 52,800 shares (12,300 shares — 1971) were reserved for which no options had been granted and all outstanding options were exercisable.

PENSIONS

The Company has pension plans covering substantially all of its employees. The total pension expense was $921,200 for the year 1972 and $886,000 for 1971, which included, as to certain of the plans, amortization of prior service cost over periods up to 40 years. The Company's policy is to fund pension costs accrued. The excess of actuarially computed vested benefits over funded amounts and accruals approximated $900,000 at December 31, 1972.

CONTINGENCIES

On December 14, 1972, the Commission of the European Communities (the "Commission") adopted a Decision to the effect that CSC and Istituto, its 51% owned Italian subsidiary, had violated Article 86 of the Treaty of Rome by discontinuing supplies to a former Italian customer of raw materials for the production of an anti-tuberculosis drug. In its Decision, the Commission imposed a fine on CSC and Istituto, jointly and severally, and ordered them to supply the material to the former customer.

The Company has appealed the Decision to the Court of Justice of the European Communities in Luxembourg. CSC and Istituto and their respective legal counsel are of the opinion that there are substantial defenses and that the Company's position will prevail.

The Company's Federal income tax returns for the years 1962 through 1967 have been examined by the Internal Revenue Service ("IRS") and certain alleged deficiencies have been assessed against the Company. CSC disagrees with the findings of the IRS and is currently contesting the 1962 to 1964 alleged deficiencies in the Tax Court. The deficiencies result primarily from differences which change the period in which certain expenses can be taken for tax purposes (see "Summary of Accounting Policies" above). The Company is of the opinion that its appeal to the Tax Court will prevail.

Report of Certified Public Accountants

The Board of Directors and Shareholders
COMMERCIAL SOLVENTS CORPORATION

We have examined the accompanying consolidated balance sheet of Commercial Solvents Corporation at December 31, 1972 and the related consolidated statements of earnings and earnings retained in business and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We have previously made a similar examination of the financial statements for the prior year.

In our opinion, the statements mentioned above present fairly the consolidated financial position of Commercial Solvents Corporation at December 31, 1972 and 1971 and the consolidated results of operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the period after the restatement, with which we concur, for the consolidation of a 51% owned foreign subsidiary as described in Notes to Financial Statements.

277 Park Avenue
New York, N.Y. 10017

ARTHUR YOUNG & COMPANY

February 22, 1973

COMMERCIAL SOLVENTS CORPORATION

Five-Year Summary

($000 OMITTED)

OPERATING RECORD (a)	1972	1971	1970	1969	1968
Net sales	$ 111,198	$ 99,639	$ 99,504	$ 102,638	$ 102,937
Earnings before extraordinary items	2,119	2,087	879	2,174	1,512
Earnings before extraordinary items per common share	.66	.65	.25	.68	.46
Net earnings (loss)	2,119	2,087	(5,745) (b)	2,174	1,512
Net earnings (loss) per common share	.66	.65	(1.93) (b)	.68	.46
Cash dividends paid per common share	.40	.40	.40	.40	.90
Depreciation, depletion and amortization	6,400	5,827	6,409	6,125	5,915
FINANCIAL POSITION (a) (c)					
Total assets	$ 104,645	$ 102,446	$ 100,775	$ 122,691	$ 129,194
Current assets	49,232	43,666	40,676	45,732	51,609
Current liabilities	15,891	14,933	12,535	17,432	21,011
Working capital	33,341	28,733	28,141	28,300	30,598
Property, plant and equipment (gross)	142,443	140,861	136,407	157,545	151,270
Property, plant and equipment (net)	48,186	51,889	52,784	70,077	71,017
Long-term debt	20,687	20,328	21,848	28,755	32,934
Shareholders' equity	57,151	56,367	55,615	62,694	61,855
EMPLOYEES AND STOCKHOLDERS (a)					
Number of employees at year-end	2,777	2,844	2,972	3,155	3,146
Wages and salaries	$ 24,613	$ 24,385	$ 24,251	$ 22,858	$ 22,552
Cost of pensions and other benefits	$ 3,716	$ 3,333	$ 2,951	$ 2,654	$ 2,565
Number of common shareholders at year-end	13,465	14,041	14,544	14,980	15,254
Average number of common shares outstanding	3,032,720	3,032,720	3,032,720	3,032,720	3,032,620

(a) Beginning in 1968 data include Istituto Chemioterapico Italiano, S.p.A.

(b) After deducting extraordinary items of $6,624,000, or $2.18 per common share.

(c) Includes Northwest Nitro-Chemicals Ltd. for the years 1968 and 1969.

Board of Directors

Jeremiah Milbank, Jr., *Chairman*
(Chairman, Executive Committee)
Walter C. Berger
J. D. Stetson Coleman
John H. Coleman
John G. Copelin
W. Ward Jackson
William S. Leonhardt*
G. Hilmer Lundbeck
Graham W. McMillan
David P. Reynolds
H. V. Sherrill*
Emanuel T. Weiler
Maynard C. Wheeler*
Robert C. Wheeler*
**Member of Executive Committee*

Officers

Jeremiah Milbank, Jr.,
Chairman of the Board
Robert C. Wheeler,
President & Chief Executive Officer
William S. Leonhardt,
Executive Vice President
W. Ward Jackson,
Vice President
Graham W. McMillan,
Vice President
H. L. Payton,
Vice President
Edward M. Taylor,
Vice President
Thomas Pescod,
Controller
Howard B. Durbin,
Secretary
Edward J. Hoogstra,
Treasurer

Transfer Agent

Chemical Bank
20 Pine Street, New York, N.Y. 10015

Registrar

The Chase Manhattan Bank, N.A.
One Chase Manhattan Plaza,
New York, N.Y. 10015

The annual meeting of stockholders will be held on April 24, 1973 at 10:00 a.m., First Maryland Building, 25 South Charles Street, Baltimore, Maryland.

Commercial Solvents Corporation

Annual Report 1973

Board of Directors

Jeremiah Milbank, *Chairman*
(Chairman, Executive Committee)
J. D. Stetson Coleman
John H. Coleman
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Vice President
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Vice President
Thomas V. Devins,
Treasurer
Howard B. Durbin,
Secretary

Transfer Agent

Chemical Bank
20 Pine Street
New York, N.Y. 10015

Registrar

The Chase Manhattan Bank, N.A.
One Chase Manhattan Plaza,
New York, N.Y. 10015

The annual meeting of stockholders will be held on April 23, 1974 at 10:00 a.m., First Maryland Building, 25 South Charles Street, Baltimore, Maryland.

Commercial Solvents Corporation

ANNUAL REPORT 1973

FINANCIAL HIGHLIGHTS

	1973	1972
Net sales	$128,851,000	$111,198,000
Earnings		
Before extraordinary items	5,453,000	2,119,000
After extraordinary items	11,893,000	2,119,000
Earnings per common share		
Before extraordinary items	1.76	.66
After extraordinary items	3.89	.66
Cash dividends paid per common share	.50	.40
Total assets	125,179,000	104,645,000
Working capital	44,279,000	33,341,000
Shareholders' equity	67,300,000	57,151,000
Per common share	21.37	17.96
Average number of common shares	3,028,320	3,032,720

Contents

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3	Financial Review
5	Operations Review
9	Financial Statements
Inside Back Cover	Five Year Summary

In the year 1973, significant increases in sales and earnings reflected the improved business climate and the progress we have made over the past several years in restructuring our Company from primarily a domestic basic chemical operation to a multi-national specialty chemical company. Based on CSC's results and the promising outlook, the Board of Directors in August voted a 50 percent quarterly dividend increase on CSC common stock, from 10 cents per share to 15 cents per share.

Our programs over the past several years have been to increase our international technical marketing effort on products from CSC's research laboratories. The NP family of products has grown into a diversified group of chemicals with specialty applications in industry, agriculture and health. RALGRO® has moved from CSC's resorcylic acid lactone research to an important place as an anabolic implant for cattle and lambs, reducing the cost of producing meat. New pharmaceutical drugs developed and formulated by Istituto Chemioterapico Italiano, S.p.A., our pharmaceutical research base in Europe, have been introduced to the market in Italy and other countries. A wide range of special purpose industrial explosives is being developed by CSC to meet exacting customer needs.

While concentration of our effort has been intense on these specialty chemical products, advances have also been made in other areas of our business.

We have expanded CSC's ability to serve the growing world market for thermal carbon black with the completion of a new plant by our Canadian subsidiary. Natural gas, the raw material for these operations, is supplied on a favorable basis under long-term contract.

The acute shortage of fertilizer in the United States has placed our 1,000 ton per day ammonia plant operations in a strong position. Natural gas for CSC's Louisiana plant complex, including the ammonia plant and the ammonium nitrate plant, is supplied by our gas operations in Louisiana and long-term contracts.

To strengthen our position in international markets, we have in recent years given close attention to the development of our marketing capabilities for specialty chemicals, pharmaceuticals and animal health products in selected countries of Europe, Latin America and the Far East. Our manufacturing operations have been expanded in Italy, Spain and Mexico, and our first facility for manufacturing NP products in Europe will be completed in West Germany in 1974.

We have major capital projects to expand our specialty chemical manufacturing under way and in the planning stage in the U.S., Canada, Europe and Latin America. At the same time, we are divesting ourselves of operations that do not support our plans for future growth.

Significant changes in the organization of CSC have been made as we have developed a new divisional structure, and clear responsibility in each business area has been given to individuals who have deep understanding of their markets and future trends of those markets. In August, Board Chairman Jeremiah Milbank announced the election of Robert C. Wheeler as Vice Chairman and Chief Executive Officer, and William S. Leonhardt as President of CSC. Mr. Wheeler has been President and a Director since joining the Company in 1966. Mr. Leonhardt's career with CSC spans 34 years. He became a Director in 1963 and was elected Executive Vice President in 1972.

As we enter 1974, the general economic outlook is clouded by widespread uncertainties relating to energy

R. C. WHEELER W. S. LEONHARDT

supply, national and international monetary factors and inflation. No one can today predict the eventual resolution of these uncertainties, but we see important strengths in CSC's situation. We have a sound operations base and growing, diversified product lines. We have continuing active programs for increasing the availability of our energy sources and raw materials, for optimizing our utilization of them, and for protecting the environment. We have the market orientation, the research and the technical support to enhance our competitive position. We view CSC's operations in 1974 with confidence.

We gratefully acknowledge the contributions that have been made to CSC's success by talented, dedicated employees in all parts of the Company.

R. C. Wheeler
Vice Chairman and Chief Executive Officer

W. S. Leonhardt
President

February 22, 1974

EARNINGS AND SALES

CSC's 1973 consolidated net earnings before an extraordinary gain were $5,453,000 or $1.76 per common share, compared with 1972 net earnings of $2,119,000 or 66 cents per share.

In addition, CSC realized a net extraordinary gain of $6,440,000 or $2.13 per common share. This brought total net earnings for 1973 to $11,893,000 or $3.89 per common share.

Our sales reached record levels for the second consecutive year. 1973 consolidated net sales of $128,851,000 were 16 percent higher than the $111,198,000 recorded for 1972.

Throughout the year, improved earnings from specialty products in U.S. and international markets were the principal factor in the Company's improved operating results. Major contributions came from RALGRO, CSC's anabolic implant for beef cattle and feedlot lambs; NP specialty chemicals for industry, human health and agriculture; and thermal carbon blacks sold into the rubber and plastics industries. Fertilizer and chemical markets improved in the latter part of 1973. International operations accounted for 21 percent of consolidated sales volume and 32 percent of marketing profit (gross profit less selling expense) in 1973.

The net extraordinary gain resulted from two actions taken during the past year. The October 1973 sale of Northwest Nitro-Chemicals Ltd.'s fertilizer plant to Western Co-operative Fertilizers Limited and related

transactions resulted in an extraordinary gain of $8,455,000 net after taxes, or $2.79 per CSC common share. The net effect of this action was reduced by a write-off authorized by CSC's Board of Directors of certain obsolete petrochemical and storage facilities amounting to $2,015,000 net after a related tax benefit, or 66 cents per CSC common share.

Through transactions related to the Northwest fertilizer plant sale, CSC increased its ownership of Northwest to the pre-1971 level of approximately 95 percent and sold its holdings of Northwest's Subordinate Debentures to Northwest. Northwest, which has again become a consolidated subsidiary of CSC, contributed 17 cents to CSC earnings per share before extraordinary items in 1973, as compared with no contribution for the prior year. Cancarb Limited, a wholly-owned subsidiary of Northwest, was not involved in the transaction with Western.

WORKING CAPITAL AND LONG-TERM DEBT

Working capital at the 1973 year end was $44,279,000, up $10,938,000 or 33 percent from $33,341,000 at the end of 1972. The major reasons for the increase were higher operating earnings and funds realized from the Northwest plant sale and related transactions.

Long-term debt was increased by $2,574,000 in 1973, representing primarily $3,290,000 borrowed in West Germany for construction of facilities, less $678,000 reduction of CSC's 4½% Convertible Subordinated Debentures by purchase for future sinking fund purposes.

CAPITAL EXPENDITURES

Capital expenditures of $12,098,000 in the year 1973 included current outlays for the new specialty chemicals plant in West Germany, Northwest expenditures prior to consolidation for Cancarb thermal carbon black facilities, and programs for environmental protection. Future capital expenditures totaling approximately $40,000,000 have been planned, primarily for growth in the higher margin specialty chemicals areas of CSC's business. A greater part of these funds will be devoted to new plant construction and to the expansion and modernization of existing facilities. Over $10,000,000 of this amount has already been approved for projects in progress or shortly to be undertaken.

Depreciation for the year amounted to $6,163,000 compared with $6,400,000 for the prior year.

EQUITY OF SHAREHOLDERS

Shareholders' equity on December 31, 1973 was $67,300,000, an increase of 18 percent over the 1972 year-end figure of $57,151,000. Book value of $21.37 per common share outstanding in 1973 compares with $17.96 per common share for 1972.

CHEMICALS FOR INDUSTRY

Industrial uses of NP's, for which CSC constructed the first commercial plant in 1955, today extend to such diverse applications as inks, vinyls, epoxies, paints, lacquers, dyes, biocides, explosives, insecticides, pharmaceuticals and photographic chemicals. And the list of applications is growing as more customers specify these versatile chemicals in their formulations because of their unique characteristics and their compatibility with ecological standards.

2-nitropropane is a case in point. Because of its unusual versatility, 2-NP has proven to be an excellent solvent in all types of surface coatings. Its use makes possible coatings that are in compliance with regulations for the control of air pollution.

The introduction in 1972 of BIOBAN® P-1487 as a new bacteriostat for cutting fluids met with success. As a result, the NP sales organization has launched a comprehensive program to develop and market biocides for a broad range of industrial applications.

AMP-95 continues to be in increasing demand by the paint industry. In latex paint formulations it plays the dual role as a powerful dispersant for pigments and as a means of controlling alkalinity. It provides for corrosion resistance, superior pigment wetting properties and formulation economies unavailable from other dispersants.

DMAMP-80 was found an effective emulsifier and solubilizer in floor polish formulations and water based coatings, replacing and outperforming amines. 1974 DMAMP-80 sales are expected to be at capacity levels.

Demand for hydroxylamine salts has exceeded production capacities. Accordingly, a new plant for these versatile inorganic chemicals with reactivity characteristics possessed by no other compound is under construction. Among important industrial applications of hydroxylamine salts are the reduction of iron to purify materials for the glass and ceramic industries, and the reduction of silver, a fundamental step in photographic film developing processes. Hydroxylamine salts are also used in dying of synthetic fibers, as antioxidants and stabilizers for inks and paints, in rubber, polymer and biological systems and metal cleaning applications.

With the growth of present markets and newly emerging fields of application for NP's, CSC is continuing to expand sales and technical service activities for these products. Increased NP production capacity is part of the Company's plans for growth.

Sales of pharmaceutical grade bacitracin and zinc bacitracin in the U. S. and abroad have continued to improve. These products are being used increasingly by pharmaceutical manufacturers and by pharmacists for prescription compounding and for the preparation of dental packs and custom ointments.

ANIMAL HEALTH AND NUTRITION

1973 sales of RALGRO brand of zeranol implants for increasing the weight gain and feed efficiency of beef cattle and feedlot lambs surpassed last year's record levels by a substantial margin. We are looking to continued, growing acceptance in world markets of this product from CSC research.

Increased sales of RALGRO stem from the need for improved meat production efficiency, our marketing effort, and the product's proven consistent performance in the field. In implanted beef cattle the average increase in both weight gain and feed efficiency is 10 percent higher than in non-implanted animals. Thus, in addition to getting the animal to market weight sooner, the feed savings permit a cattleman to feed 11 implanted animals with the same amount of feed required for 10 non-implanted animals. In implanted feedlot lambs, average increase in daily gain is 17

percent on 13 percent less feed per pound of gain.

The shortage and attendant price increase of corn, soybean, Peru fishmeal and other high protein animal feeds have seen the introduction of a diversity of less expensive but also less nutritive substitutes into livestock diets. Our BACIFERM® zinc bacitracin antibiotic feed additive has proven effective in overcoming certain digestive complications resulting from use of these substitutes.

Sales of our choline chloride feed supplements are also at peak levels due to large order backlogs created by raw material shortages in 1972. We expect the high sales volumes for choline chloride to continue throughout the current year.

Brae Laboratories, our wholly-owned subsidiary serving the ethical veterinary profession, has in its first year of operation achieved gratifying results in this important new market.

In view of the strong market potential for CSC products in the animal health, nutrition and veterinary areas of our business, we have expanded our sales staffs and stepped up our advertising and merchandising efforts.

INDUSTRIAL EXPLOSIVES

The market for explosives, primers and accessories produced by Trojan-U.S. Powder Division of CSC has grown substantially during the past year. To achieve a better sales coverage, the Division has enlarged its marketing and technical service staffs and established five distinct sales districts from the former three.

While building, highway and pipeline construction should continue to represent a substantial share of the industrial explosives market, the U.S. energy pinch has created new demands for our products in seismic exploration and coal mining. The Company also exports certain products for use in specialized explosives systems for underwater ditching and harbor deepening in remote areas of the world.

A new family of products consisting of special two-part explosives, which are activated only when the components are mixed immediately prior to use, has been developed by Trojan-U.S. Powder. The products' excellent performance and built-in safety provisions, which facilitate handling and shipping, are expected to be well received in the industrial explosives market.

THERMAL CARBON BLACK

Following a market turnaround in the 1972 third quarter, strong demand for thermal carbon blacks has continued throughout last year and into 1974. The market for these specialty products is in the rubber and plastics industries, with new applications developing in the field of metallurgy.

Thermal carbon black is used extensively in the manufacture of rubber to achieve desired toughness and wear resistance for items such as gaskets, fan belts and hoses. The automotive industry is a large consumer of these end use products.

The United States, Western Europe, Canada and Japan are the major markets supplied by CSC's Thermatomic Carbon Company Division and Cancarb Limited.

GAS OPERATIONS

CSC's Louisiana and Navarro Gas Production Divisions supply natural gas to our Louisiana plants. We are continuing aggressive programs for increasing the output of our gas producing properties. The balance of natural gas requirements for our Louisiana operations is filled by purchase under long-term contracts.

Our requirement for propane used as a raw material in the manufacture of the NP family of chemicals is also supplied under long-term contract.

Based on current projections that anticipate no worsening of present conditions, we believe CSC's operations will not be materially affected by the petrochemical feedstock situation in 1974.

INTERNATIONAL OPERATIONS

Increased sales of higher margin specialty products in international markets contributed to CSC's 1973 earnings rise. The product groups that are receiving prime emphasis in our international business are NP-derived specialty chemicals, pharmaceuticals and animal health and nutrition products. During the past year we have strengthened our position in each of these areas, and in 1974 CSC will start up its first overseas NP manufacturing plant. Product lines of pharmaceutical companies we have acquired have been expanded. RALGRO sales in international markets are growing; we are now authorized to sell in 19 countries outside the United States, including all major meat producing nations of the Western Hemisphere, and additional RALGRO registrations have been applied for in a number of other areas.

The International Division has been organized into three primary market regions—Europe and Africa, the Western Hemisphere, and the Far and Middle East—and Marketing Managers have been established for each. Our subsidiary and affiliate operations are headed by nationals of the countries in which they are located.

EUROPE AND AFRICA—Our wholly owned subsidiary, *CSC-Chemie*, with headquarters in Cologne, West Germany, markets specialty chemicals and animal health and nutrition products in Europe and Africa. To serve its growing markets for certain NP related specialty chemicals, *CSC-Chemie* will operate a manufacturing facility, now nearing completion, at Ibbenbüren. The new production complex, including warehousing, storage and distribution facilities, marks an important step forward in CSC's ability to serve these international markets.

Marketing of animal health and nutrition products in Europe and Africa has been expanded during the past year. A new CSC subsidiary was established in Great Britain that will market RALGRO, which has been approved for use by the British authorities. This product is being marketed directly in West Germany, Switzerland, Austria and Spain. Following approval last year by authorities in the Union of South Africa and neighboring countries, RALGRO was launched in these markets under distributor arrangements.

Istituto Chemioterapico Italiano, our Italian subsidiary, is a manufacturer and distributor of ethical drugs and of several pharmaceutical fine chemicals. *Istituto's* research department has developed, formulated and had approved for marketing a number of pharmaceutical specialties, including products for the cardiovascular system. Several of its specialties have been licensed for marketing in other European countries and in Latin America.

Progress was made in 1973 by our Spanish operations. *Laboratorios Llorens* has added to its pharmaceutical products line. *Indukern* sells BACIFERM, choline chloride and other animal nutrition and specialty chemicals in Spain, and *Laboratorios Calier* markets RALGRO and other animal health specialties directly to distributors and users. In Portugal, *Vetiquima* markets animal health, nutrition, and veterinary products, NP's and their derivatives.

WESTERN HEMISPHERE—Our Mexican subsidiary, *Comsolmex*, markets products from the U.S. and certain specialty products throughout Mexico and Central America, including choline chloride, produced in Mexico, and CSC's RALGRO and BACIFERM. The RALGRO spherical implant pellet was introduced last year and was well received by the livestock industries. Sales volumes of NP's and derivatives showed improvement, and our affiliate, *Catalisis*, is expanding its

production facilities for certain specialties for industrial and animal nutrition use. Initial marketing of selected pharmaceuticals is being undertaken in Mexico.

In Argentina, our subsidiary, *Dismedic*, sells RALGRO, NP derived products, other specialty chemicals and several pharmaceuticals. Plans have been completed to add to its pharmaceutical product line in 1974.

NP's and derivatives have been introduced in Brazil, and sales growth for these products is expected this year. Animal health and nutrition products are receiving increased acceptance by Brazilian livestock producers. Our registration for RALGRO was approved early in 1974, and the product will be marketed in Brazil through a national distributor. In other Latin American countries, sales of RALGRO, our other animal health and nutrition products and our specialty chemicals continue to improve.

Two new developments marked our activity in Canada during 1973—completion of *Cancarb's* thermal carbon black plant in Medicine Hat, and the introduction of RALGRO to the Canadian market.

FAR AND MIDDLE EAST—Our expanded technical service representation in Australia and New Zealand has resulted in substantial gains in the sales of NP's and specialty chemicals. RALGRO, introduced in New Zealand last year, was well received in the livestock producing industry.

In Japan, Hong Kong, South Korea and Taiwan a number of marketing seminars have had a strong impact, and sales have increased for NP's and their derivatives. Our specialty chemicals are starting to find markets in the more developed of the Middle East countries. Animal nutrition products, including BACIFERM, choline chloride and poultry feed premixes, are marketed in Australia, Hong Kong, Israel, Malaysia, New Zealand, Singapore, South Korea and Taiwan.

REPORT ON RESEARCH

The scientific and technological attainments of Research are vital in CSC's growth as a multi-national chemical specialties company. Through programs which meet present needs and anticipate future requirements of CSC and its customers, our research groups are continuing to develop products and processes with unique characteristics to perform specific, sophisticated functions. Close working relationships of CSC research, technical service and marketing teams with our customers have resulted in many new and useful applications of products in industry, agriculture and the animal and human life sciences.

The products and process improvements which are at the heart of our specialty chemicals business have resulted from investigations and studies originating in past years. RALGRO and the NP family of products are prime examples of CSC research programs that have resulted in products which are today making important contributions to profits. Further research in the NP's and the resorcylic acid lactones is in progress.

Our research resources for responding to needs of the future have grown through expanding in-house technology, acquisitions and joint endeavors with universities, laboratories and companies in many countries. Our priority programs today are applying these resources to find new specialty products that will fill identified needs in markets where we have an established position or see significant opportunities. Areas of investigation include new specialty products for specific industrial needs, drugs for the treatment of cardiovascular and endocrine problems and various geriatric conditions in man, and new anabolic agents and veterinary products for use in animals.

COMMERCIAL SOLVENTS CORPORATION

Consolidated Earnings and Earnings Retained in Business

	Year Ended December 31,	
	1973	1972
Revenues		
Net sales	$128,850,570	$111,197,871
Other income (net)	1,213,912	857,055
	130,064,482	112,054,926
Costs and expenses		
Cost of sales	93,170,150	82,255,105
Selling, research and administrative expenses	20,995,736	18,987,964
Depreciation, depletion and amortization	6,162,556	6,400,177
Interest on borrowings	934,368	986,315
	121,262,810	108,629,561
Earnings from operations before Federal and foreign income taxes	8,801,672	3,425,365
Federal and foreign income taxes	3,802,987	1,077,874
Earnings from operations	4,998,685	2,347,491
Equity in earnings of investments	593,434	26,937
Minority interest in net earnings of subsidiaries	(138,800)	(255,642)
Earnings before extraordinary items	5,453,319	2,118,786
Extraordinary items net of income taxes	6,439,556	—
Net earnings	11,892,875	2,118,786
Earnings retained in business at beginning of year	40,749,129	39,964,600
	52,642,004	42,083,386
Dividends paid		
Preferred stock ($.90 per share)	121,169	121,169
Common stock ($.50 per share 1973; $.40 per share 1972)	1,513,718	1,213,088
	1,634,887	1,334,257
Earnings retained in business at end of year	$ 51,007,117	$ 40,749,129
Per share of common stock		
Primary		
Earnings before extraordinary items	$ 1.76	$ .66
Extraordinary items	2.13	—
Net earnings	$ 3.89	$ .66
Fully diluted		
Earnings before extraordinary items	$ 1.74	$ .66
Extraordinary items	1.90	—
Net earnings	$ 3.64	$ .66

See accompanying notes to financial statements.

COMMERCIAL SOLVENTS CORPORATION

Consolidated Balance Sheet

Assets	December 31, 1973	December 31, 1972
Current assets		
Cash	$ 4,261,498	$ 3,864,137
Time deposits	16,943,098	2,200,000
Accounts and notes receivable (less allowance for doubtful accounts, 1973—$400,390; 1972—$230,197)	22,867,955	19,437,711
Inventories		
Finished products and material in process	14,861,321	15,497,543
Raw material and supplies	7,270,481	6,997,477
Prepaid expenses	979,165	1,235,435
Total current assets	67,183,518	49,232,303
Investments	2,642,208	2,828,973
Property, plant and equipment, at cost		
Land	1,414,184	1,411,184
Plant, equipment and gas properties	141,017,432	141,031,741
	142,431,616	142,442,925
Less accumulated depreciation, depletion and amortization	91,285,503	94,256,792
Net property, plant and equipment	51,146,113	48,186,133
Goodwill, patents and other intangibles	3,853,344	3,929,716
Deferred charges	353,465	468,272
	$125,178,648	$104,645,397

See accompanying notes to financial statements.

Liabilities and Shareholders' Equity	December 31, 1973	December 31, 1972
Current liabilities		
Accounts payable and notes payable	$ 10,025,758	$ 8,310,503
Accrued Federal and foreign income taxes	5,917,268	2,776,552
Other accrued liabilities	6,650,066	4,712,279
Current installments on long-term debt	311,176	92,242
Total current liabilities	22,904,268	15,891,576
Long-term debt, less current installments	23,261,098	20,687,452
Deferred Federal and foreign income taxes	7,346,964	7,832,250
Other non-current liabilities	2,652,483	1,848,439
Minority interest in subsidiaries	1,713,926	1,234,227
Shareholders' equity		
Preferred stock $20 par value, authorized 1,000,000 shares		
Series A Preferred stock, 4.5% cumulative convertible		
Authorized—273,400 shares		
Issued —134,632 shares	2,692,640	2,692,640
Common stock, $1 par value		
Authorized—6,000,000 shares		
Issued —3,110,120 shares	7,066,694	7,066,694
Additional paid-in capital	8,724,398	8,724,398
Earnings retained in business	51,007,117	40,749,129
	69,490,849	59,232,861
Less treasury common stock, at cost—86,200 shares in 1973; 77,400 shares in 1972	2,190,940	2,081,408
Total shareholders' equity	67,299,909	57,151,453
	$125,178,648	$104,645,397

COMMERCIAL SOLVENTS CORPORATION

Consolidated Statement of Changes in Financial Position

	Year Ended December 31, 1973	1972
Source of funds		
Operations		
Earnings before extraordinary items	$ 5,453,319	$2,118,786
Depreciation, depletion and amortization	6,162,556	6,400,177
Deferred Federal and foreign income taxes	538,343	(543,431)
Foreign severance indemnity—net	366,639	386,589
Equity in earnings of investments	(593,434)	(26,937)
Funds from operations before extraordinary items	11,927,423	8,335,184
Extraordinary items, net of income taxes	6,439,556	—
Write-off of obsolete fixed assets	2,781,102	—
Revaluation of investment in Northwest	(4,078,434)	—
Deferred Federal and foreign income taxes	(1,514,205)	—
	15,555,442	8,335,184
Effect of purchase and resultant consolidation of Northwest	1,335,868	—
Net book value of property, plant and equipment sold and retired, mainly Northwest	7,792,413	112,054
Increase in long-term debt	2,573,646	359,586
Other—net	74,920	194,307
Total	$27,332,289	$9,001,131
Application of funds		
Dividends paid	$ 1,634,887	$1,334,257
Expenditures for property, plant and equipment	7,596,341	2,809,469
Retirement of Northwest debentures, less tendered by CSC	6,595,050	—
Increase in investments	567,488	249,438
Increase in working capital	10,938,523	4,607,967
Total	$27,332,289	$9,001,131
Increase (decrease) in components of working capital		
Cash (including time deposits)	$15,140,459	$1,763,099
Receivables, net	3,430,244	5,005,022
Inventories	(363,218)	(1,313,663)
Prepaid expenses	(256,270)	111,535
Accounts payable and accrued liabilities	(6,793,758)	(2,689,208)
Current installments on long-term debt	(218,934)	1,731,182
Increase in working capital	$10,938,523	$4,607,967

See accompanying notes to financial statements.

SUMMARY OF ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of all material majority-owned subsidiaries and an undivided one-half interest in an unincorporated joint venture. Immaterial majority-owned subsidiaries not consolidated and all other investments in companies in which Commercial Solvents Corporation ("CSC") owns 20% or more of the voting stock (except the 1972 investment in Northwest Nitro-Chemicals Ltd.; see "Investments" below) are carried at cost plus equity in undistributed net earnings since acquisition.

TRANSLATION OF FOREIGN CURRENCIES

Current assets and liabilities recorded in the accounts of consolidated foreign subsidiaries located principally in Canada, Western Europe and Mexico are expressed in U.S. dollars at current rates of exchange; long-term assets and liabilities are expressed in U.S. dollars at historical rates of exchange (if translated at the current rate of exchange, long-term liabilities would decrease by $228,000).

Profit and loss items are expressed in U.S. dollars at the rates of exchange which prevailed during the period. Realized exchange adjustments are recognized currently. Exchange gains of $167,000 and $149,000 have been included in 1973 and 1972 earnings, respectively.

Approximately $36,269,000 and $16,142,000 of consolidated assets and $21,181,000 and $18,731,000 of consolidated net sales included in the consolidated financial statements in 1973 and 1972, respectively, relate to consolidated foreign subsidiaries.

INVENTORIES

Inventories of finished products are stated at the lower of cost or realizable market; material in process and raw material and supplies are stated at the lower of cost or replacement market. Costs represent standard cost or average cost for finished products and average cost determined monthly for all other inventories.

PROPERTY, PLANT AND EQUIPMENT

Depreciation and amortization of plant facilities have been provided on the straight-line method. The estimated lives used in calculating such depreciation and amortization were as follows:

Buildings	5 to 50 years
Equipment	3 to 33¼ years
Office furniture	5 to 15 years
Leasehold improvements	Over life of lease
Gathering lines and field equipment	15 years

Depletion of gas and gas rights and depreciation of productive gas wells have been provided on the unit-of-production method over the estimated recoverable reserves. All "dry-hole" costs are charged to income as incurred.

It has been the policy of the Company to charge to expense the cost of maintenance, repairs and minor renewals. Whenever any major item of equipment is purchased as a replacement, the cost is capitalized, and the property, plant and equipment and accumulated depreciation and amortization accounts are adjusted for the equipment replaced. Upon sale or retirement of property, plant and equipment, the cost and accumulated depreciation, depletion and amortization are removed from the respective accounts, and any gain or loss is included in income for the year.

GOODWILL, PATENTS AND OTHER INTANGIBLES

Excess cost of investments over equity in the net assets of subsidiaries acquired subsequent to November 1, 1970 amounting to $621,000 at December 31, 1973 is included in investments and is being amortized on a straight-line basis over a 40 year period. Excess cost of investments over equity in the net assets of subsidiaries acquired prior to November 1, 1970 amounting to $3,748,000 included in goodwill, patents and other intangibles is not being amortized since in the opinion of CSC there has been no impairment in value. Patents and other intangible assets are being amortized on the straight-line basis over 4 to 10 year periods.

RESEARCH AND DEVELOPMENT COSTS

Research and development costs are charged to operations as incurred.

INCOME TAXES

Items of income or expense are sometimes recognized in one accounting period for computation of income tax and in another accounting period for financial reporting purposes. In addition, there are certain differences in income or expense between financial statement and tax earnings that are not timing differences but are permanent in nature. As a result, the income tax provision shown in the statement of Consolidated

Earnings and Earnings Retained in Business for a given year may differ from the amount actually paid for that year. CSC deferred taxes arise principally from the difference in the Company's method of calculating depreciation for tax and book purposes, and permanent differences relate primarily to additional depletion on the Company's gas wells allowed under applicable tax statutes.

CSC has not provided for income taxes on a portion of the unremitted earnings of foreign subsidiaries and the tax deferred portion of the earnings of a domestic international sales corporation, since the Company has plans for the investment of these funds in either foreign or qualified export related operations.

CSC recognizes investment tax credit in the year eligible assets are placed in service. Investment tax credit amounted to $215,000 in 1973 and $151,000 in 1972.

EARNINGS PER SHARE

Primary earnings per share were determined by dividing the weighted average number of common shares outstanding during the year into net earnings reduced by preferred dividend requirements. The assumed exercise of common stock options would not have had a material effect on primary earnings per share in 1973 and would have been anti-dilutive in 1972.

In 1973, fully diluted earnings per common share assumes the conversion of the Company's outstanding preferred stock, subordinated debentures, and the exercise of all dilutive common stock options; the per share effect of these assumptions would have been anti-dilutive in 1972.

INVESTMENTS

Investments at December 31, 1973 and 1972, consist primarily of investments in non-consolidated subsidiaries and other companies, as described under the caption "Principles of Consolidation" and, in 1972, include an investment in Northwest Nitro-Chemicals Ltd. ("Northwest").

At December 31, 1970, CSC sold 45% of the outstanding common shares of Northwest, thereby reducing its investment in Northwest to slightly less than 50% of the outstanding common shares and certain debentures and preferred stock. CSC determined, at that time, that the only value remaining in its investment in Northwest and in agreements relating to this sale was approximately $1,441,000, represented by debentures and preferred stock. The resulting write-down was reflected by an extraordinary charge to 1970 earnings.

After the Company's investment in common shares of Northwest was completely written off in 1970, CSC applied the equity method of accounting for investments to only the excess of Northwest's earnings over losses since December 31, 1970. Northwest's unaudited accumulated consolidated net earnings (loss) was ($254,000) for the two years ended December 31, 1972, and $1,224,000 for the nine months ended September 30, 1973.

On October 4, 1973, CSC reacquired the common shares of Northwest sold in 1970, thereby increasing its investment in Northwest to approximately 95% of the outstanding common shares.

This acquisition has been accounted for as a purchase, and the consolidated statements for 1973 include Northwest's accounts and operations since October 1, 1973.

On July 19, 1973, Northwest entered into a conditional sale agreement to sell its fertilizer plant, related facilities and inventories, not including shares or assets of subsidiaries. Northwest's extraordinary gain on the sale, which was closed on October 4, 1973, amounted to approximately $4,113,000 (Canadian) net of income taxes.

Since Northwest's revenues prior to October 1, 1973 were derived totally from operations of the fertilizer plant, the presentation of CSC pro-forma results of operations as if the 95% interest in Northwest had been reacquired on January 1, 1972 would not be indicative of continuing operations. Northwest's future operations will largely depend upon the successful operations of Cancarb Limited, its wholly-owned carbon black producing subsidiary, which did not begin operations until after December 31, 1973.

In connection with the sale of the plant, Northwest made a cash tender offer on August 31, 1973 to purchase any or all of its outstanding Debentures at the rate of $1,000 per $1,000 Debenture (holders tendering Debentures thereby waiving all rights to interest accrued thereon). Debentures in the principal amount of $7,656,000 were tendered to and purchased by Northwest and were subsequently cancelled. Northwest also

deposited funds with the Trustee to pay the principal and interest to maturity on all Debentures which were not tendered, and the related Indenture was satisfied and discharged. The net effect of the purchase of the Debentures, the satisfaction of the Indenture and transactions relating thereto was an extraordinary gain net of taxes of approximately $759,000.

The aggregate net effect of the plant sale and related transactions described above was an extraordinary gain for Northwest of approximately $4,872,000 (Canadian) after applicable income taxes.

EXTRAORDINARY ITEMS

The net extraordinary gain aggregating $6,440,000, net of income taxes, consists of CSC's approximately 95% interest in Northwest's extraordinary gain of $4,628,000 described above, a gain of $3,827,000 on the revaluation of CSC's investment in Northwest and related transactions, and a loss of $2,015,000 from the write-off of certain CSC obsolete facilities, as approved by CSC's Board of Directors at their September 1973 meeting.

CSC's investment in Northwest was reinstated to the extent of its equity in the net assets of Northwest, since the fertilizer plant sale changed the circumstances requiring the 1970 write-down.

The foregoing net extraordinary gain includes a net tax benefit of $799,000 reflecting an income tax credit relating to the write-off of CSC's obsolete facilities which has been reduced by Canadian taxes applicable to the Northwest extraordinary gain. Such taxes have been minimized as a result of various valuation allocations and other items permissible under Canadian tax statutes. In 1970, when CSC's investment in Northwest was written down, no provision for tax benefits was made; therefore, no tax has been provided for on the current revaluation thereof.

LONG-TERM DEBT

Long-term debt outstanding at December 31, 1973 and 1972 is shown in the following summary:

	December 31, 1973	December 31, 1972
4½% Convertible Subordinated Debentures due July 1, 1991	$20,000,000	$20,000,000
Less debentures held by CSC, at par value (cost—$412,219)	678,000	—
	19,322,000	20,000,000
Debt of foreign subsidiaries	3,939,098	649,952
Other	—	37,500
	$23,261,098	$20,687,452

The 4½% Convertible Subordinated Debentures are convertible into common stock of the Company at $68 per share, and 284,147 shares of common stock were reserved for the conversion of outstanding Debentures at December 31, 1973. The Debentures are subject to redemption at the option of the Company at prices ranging from 102.75% of the principal amount through June 30, 1974 to 100% of the principal amount on July 1, 1986 and thereafter. Annual sinking fund payments of $1,000,000 in 1977 through 1990 are required under the Indenture relating to the Debentures; the Company has the option of reducing the sinking fund payment in any year by the principal amount of Debentures theretofore issued and acquired by the Company and not used to reduce a payment in a prior year. The Indenture also imposes certain restrictions including, among others, those pertaining to the payment of dividends other than stock dividends.

At December 31, 1973, $17,826,000 of earnings retained in business was free of the restrictions contained in the Indenture.

SHAREHOLDERS' EQUITY

The Series A Preferred Stock, 4.5% cumulative convertible, has voting rights and is convertible on the basis of .597 of a share of common stock for each share of such preferred stock. There were no conversions of Series A Preferred Stock during 1973 or 1972, and at December 31, 1973, 80,377 shares of common stock were reserved for conversion of the outstanding Series A Preferred Stock.

During 1973, the Company purchased 8,800 shares of common stock for its treasury at a cost of $110,000.

PENSIONS

The Company has pension plans covering substantially all of its employees. The total pension expense was $1,072,000 for the year 1973 and $921,000 for 1972, which included, as to certain of the plans, amortization of prior service costs over periods up to 40 years. The Company's policy is to fund pension costs accrued. The excess of actuarially computed vested benefits over funded amounts and accruals approximated $1,060,000 at December 31, 1973.

STOCK OPTIONS

The Company has a qualified stock option plan under which options to purchase common shares may be granted at a price not less than 100% of the fair market value at the date of grant. Options are for a term not to exceed five years and become exercisable one year after the date of grant. The following table sets forth certain information concerning the plan during 1973 and 1972:

	1973		1972	
	Common Shares	Per Share	Common Shares	Per Share
Options outstanding—beginning of year	47,200	$22.25 to $25.00	87,700	$22.25 to $40.75
Options granted	45,550	$15.50 to $17.00	None	—
Options expired or cancelled	(750)	$22.25	(40,500)	$40.75
Options outstanding—end of year	92,000	$15.50 to $25.00	47,200	$22.25 to $25.00

At December 31, 1973, 8,000 shares (52,800 shares at December 31, 1972) were reserved for which no options had been granted and options for 46,450 shares were exercisable.

CONTINGENCIES

The Company's Federal income tax returns for the years 1962 through 1967 have been examined by the Internal Revenue Service ("IRS"), and certain alleged deficiencies have been assessed against the Company. CSC disagrees with some of the findings of the IRS and is currently contesting the 1962 to 1967 alleged deficiencies. The deficiencies result primarily from differences which change the period in which certain expenses can be taken for tax purposes (see "Summary of Accounting Policies" above). The Company is of the opinion that when it settles its disagreements with the IRS, no material additional provision for taxes will be required. The returns for the years 1968 through 1970 are currently under examination.

Report of Certified Public Accountants

The Board of Directors and Shareholders
COMMERCIAL SOLVENTS CORPORATION

We have examined the accompanying consolidated balance sheet of Commercial Solvents Corporation at December 31, 1973 and 1972 and the related consolidated statements of earnings and earnings retained in business and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the consolidated financial position of Commercial Solvents Corporation at December 31, 1973 and 1972 and the consolidated results of operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

ARTHUR YOUNG & COMPANY

277 Park Avenue
New York, N.Y. 10017

February 21, 1974

COMMERCIAL SOLVENTS CORPORATION

Five Year Summary

($000 OMITTED)

OPERATING RECORD	1973	1972	1971	1970	1969
Net sales	$ 128,851	$ 111,198	$ 99,639	$ 99,504	$ 102,638
Earnings before extraordinary items (a)	5,453	2,119	2,087	879	2,174
Earnings before extraordinary items per common share (a)	1.76	.66	.65	.25	.68
Net earnings (loss) (a)(b)	11,893	2,119	2,087	(5,745)	2,174
Net earnings (loss) per common share (a)(b)	3.89	.66	.65	(1.93)	.68
Cash dividends paid per common share	.50	.40	.40	.40	.40
Depreciation, depletion and amortization	6,163	6,400	5,827	6,409	6,125
FINANCIAL POSITION (c)					
Total assets	$ 125,179	$ 104,645	$ 102,446	$ 100,775	$ 122,691
Current assets	67,183	49,232	43,666	40,676	45,732
Current liabilities	22,904	15,891	14,933	12,535	17,432
Working capital	44,279	33,341	28,733	28,141	28,300
Property, plant and equipment (gross)	142,432	142,443	140,861	136,407	157,545
Property, plant and equipment (net)	51,146	48,186	51,889	52,784	70,077
Long-term debt	23,261	20,687	20,328	21,848	28,755
Shareholders' equity	67,300	57,151	56,367	55,615	62,694
EMPLOYEES AND STOCKHOLDERS					
Number of employees at year-end	2,833	2,777	2,844	2,972	3,155
Wages and salaries	$ 25,845	$ 24,613	$ 24,385	$ 24,251	$ 22,858
Cost of pensions and other benefits	$ 4,672	$ 3,861	$ 3,428	$ 3,037	$ 2,746
Number of common shareholders at year-end	13,463	13,465	14,041	14,544	14,980
Average number of common shares outstanding	3,028,320	3,032,720	3,032,720	3,032,720	3,032,720

(a) Includes Northwest Nitro-Chemicals Ltd. for the years 1969, 1970 and 1973.

(b) After adding extraordinary items of $6,440,000 or $2.13 per common share in 1973, and after deducting extraordinary items of $6,624,000 or $2.18 per common share in 1970.

(c) Includes Northwest Nitro-Chemicals Ltd. for the years 1969 and 1973.

Commercial Solvents Corporation

245 Park Avenue, New York, N.Y. 10017 (212) 661-5454

Annual Report 1974

Directors

Jeremiah Milbank*
Chairman of the Board and Executive Committee, CSC; Private Investment Management

J. D. Stetson Coleman
Chairman of Finance Committee, Pennzoil Company

John H. Coleman
President of J.H.C. Associates Ltd.; Retired Deputy Chairman, The Royal Bank of Canada

John G. Copelin
Retired Vice President of International Telephone & Telegraph Corporation

W. Ward Jackson
Vice President, CSC

William S. Leonhardt*
President and Chief Executive Officer, CSC

Graham W. McMillan
Vice President, CSC

David P. Reynolds
Executive Vice President and General Manager of Reynolds Metals Company

H. V. Sherrill*
President and Chief Executive Officer, Shields Model Roland Incorporated

Emanuel T. Weiler
Professor of Management and Economics, Purdue University

Robert C. Wheeler*
Vice Chairman of the Board, CSC

*Member of Executive Committee

Officers

Jeremiah Milbank
Chairman of the Board of Directors

Robert C. Wheeler
Vice Chairman of the Board of Directors

William S. Leonhardt
President and Chief Executive Officer

W. Ward Jackson
Vice President

Graham W. McMillan
Vice President

H. L. Payton
Vice President

Thomas Pescod
Vice President and Controller

Edward M. Taylor
Vice President and General Counsel

Thomas V. Devins
Treasurer

Howard B. Durbin
Secretary

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Highlights of the Year

	1974	1973
Earnings before net extraordinary gain	$ 16,842,000	$ 5,453,000
Per common share	5.44	1.76
Net earnings	16,842,000	11,893,000
Per common share	5.44	3.89
Sales	179,845,000	128,851,000
Total assets	153,795,000	125,179,000
Shareholders' equity	81,409,000	67,300,000
Per common share	25.79	21.37
Working capital	47,491,000	44,279,000
Long-term debt	20,791,000	23,261,000

Special Message

International Minerals & Chemical Corporation (IMC) acquired 46% of CSC common stock outstanding through two public tender offers, one expiring March 22, 1974 and the second expiring August 2, 1974.

On February 19, 1975, as this Annual Report was in final stages of preparation, the Board of Directors of IMC made an offer in principle for IMC to acquire CSC in a cash merger providing for CSC shareholders to receive $45.00 for each CSC share held by them. This offer was accepted in principle by CSC's Board of Directors. Subject to approval by both Boards of an Agreement and Plan of Merger, CSC shareholders will be asked to vote on the proposed merger, details of which will be discussed in the CSC Proxy Statement. If the proposed merger takes place, CSC's 4½ % Convertible Subordinated Debentures due July 1, 1991 will remain outstanding as the obligation of an IMC subsidiary which will have all the assets and liabilities of CSC, and holders of Debentures will have the right at their option to convert them into cash at the rate of $661.76 for each $1,000 principal amount of Debentures.

Letter to Stockholders

The year 1974 was a period of unprecedented demand for most of our product lines on a world-wide basis, resulting in record sales of $179,845,000 and record earnings of $16,842,000 or $5.44 per common share. We changed to the last-in, first-out (LIFO) method of valuing domestic inventories for the year 1974, which decreased net earnings for the period by approximately $1,635,000 or $.53 per common share. The change was made to better reflect current income by providing a closer match of current cost against current revenues.

Reflecting the Company's sound financial position, improved earnings and outlook for the future, the Board of Directors during the year increased the quarterly dividend rate from 15¢ per common share to 35¢ per share, bringing the current annual rate to $1.40 per share.

The increased demand and improved margins in 1974 for chemicals used for industry, human

W. S. Leonhardt, President and Chief Executive Officer

R. C. Wheeler, Vice Chairman of the Board

use and agriculture enabled us not only to expand in established areas of business, but to move forward into new areas and new uses, creating a broader base for our specialty chemicals. An exception was a segment of our animal health and nutrition business which was depressed due to the negative economic conditions in the U.S. beef industry.

An increased demand had been anticipated, and capital expenditures to expand our production capacities were completed or under way in 1974. In spite of this, demand exceeded our ability to produce, and it was necessary to allocate many of our products during the year.

A significant achievement in 1974 was the starting up of new chemical facilities and expanding our capital planning for 1975-76. Expansions of several of our NP derivatives plants were completed in 1974, and the first NP derivatives plant in the international area was brought on stream in Ibbenbüren, West Germany. During the year construction was started to expand our basic NP capacity at Sterlington, Louisiana, by 50 per cent, and this project will be completed in 1975. Site location and engineering design for a new basic NP plant in Europe are nearing completion. In Medicine Hat, Canada, we started a new carbon black plant, augmenting our production capacity in Louisiana. Expansion for polyols was completed in Seiple, Pennsylvania.

In our ongoing $80,000,000 capital expansion and improvement program, expenditures of $14,206,000 were made in 1974. Capital expenditures in the current year are expected to exceed that figure, with the major amount devoted to modernization and expansion of existing facilities, environmental protection, and to natural gas exploration and development.

During the year we reached an agreement with International Minerals & Chemical Corporation for CSC to operate a 1,150 ton per day ammonia plant that IMC is building on land adjacent to our ammonia plant in Louisiana. IMC will own the plant, which is scheduled for completion in 1977. CSC will supervise and consult in the engineering and construction of the plant and will contract a supply of natural gas for its operation.

Further steps were taken in 1974 to better develop and serve our many market places by strengthening CSC's major profit centers. Divisional Vice President — General Managers were placed in charge of each of these profit centers. Our Central Distribution Division and Computer Center will move in 1975 into the new Terre Haute, Indiana, office building now under construction. This centralization of facilities will enable us to serve our customers better.

In September 1974, CSC Board Chairman Jeremiah Milbank announced that William S. Leonhardt, President, had been assigned the duties of Chief Executive Officer. Robert C. Wheeler, who had been Chief Executive Officer and Vice Chairman of the Board, continues as Vice Chairman, concentrating his efforts on the long-range direction of CSC.

Our current multi-national operations consist of three broad product groups, each of which includes basic and specialty chemicals. They are:

Products for the chemical and other industries, including the versatile NP family, industrial explosives, carbon black, anhydrous ammonia, methylamines, methanol, ethyl alcohol and derivatives of certain of these chemicals,

Products for human use, including ethical pharmaceuticals, chemicals used to make pharmaceuticals, fine chemicals and food chemicals, and

Products for agriculture, including products for animal health and nutrition, and fertilizers.

In the 1970-74 period, during which our annual business volume has increased from approximately $99,500,000 to $179,800,000, the contributions to annual sales of products for the chemical and other industries have ranged between 58 and 64 per cent; products for human use, 17 and 24 per cent; and products for agriculture, 17 and 20 per cent.

These percentages vary somewhat from year to year as CSC and its subsidiaries develop or penetrate more deeply one or another of the markets for our product groups at home and abroad. This new business activity is aided by the current increased demand for certain of the basic chemicals we make and sell, and by the many applications for our specialty chemicals in a variety of manufacturing processes.

Products for the chemical and other industries

In our NP family of chemicals, new products and new applications for existing products resulted in substantial sales growth during the past year. Many NP applications reflect the compatibility of various of these products with environmental standards. CSC's industrial explosives operations

E. M. Taylor, Vice President and General Counsel, and W. W. Jackson, Vice President and Director

in 1974 were marked by increased sales of nitrocarbo-nitrate and introduction of the industry's first explosives booster to be packaged in a can for easier shipment, handling, and use. We also added detonating cord production to our industrial explosives manufacturing capability. Our thermal carbon black operations were extended with the startup of a new plant in Alberta, Canada, and plans are currently under consideration for increasing the facility's output. General purpose chemicals for industrial use showed a major improvement in sales and contribution to earnings in 1974. With methanol in extremely short supply, we reactivated a portion of our Louisiana methanol plant as an aid to our customers.

Products for human use

Our international pharmaceutical operations were expanded with the acquisition in Brazil of a manufacturer of tranquilizers and geriatric tonics. Other CSC pharmaceutical subsidiaries and affiliates in Italy, Spain, Mexico, Argentina and Brazil market ethical preparations to physicians, hospitals and drug wholesalers. Included are products for the treatment of acute cardiac infarction, arthritis, colitis, diarrhea, liver dysfunctions, tuberculosis and eye diseases. In our U.S. pharmaceutical fine chemicals area, sales of bacitracin and zinc bacitracin antibiotics increased. Sales of NP's for the manufacture of pharmaceuticals continued to grow. Fermentation manufacturing facilities in Terre Haute, Indiana, were utilized in part for the production of antibiotics for other companies.

Products for agriculture

Domestic and international sales of our animal health and nutrition antibiotic and vitamin feed supplements continued to grow. However, cutbacks in U.S. beef production affected sales of our RALGRO® brand of zeranol anabolic implants.

G. W. McMillan, Vice President and Director

H. L. Payton, Vice President responsible for CSC's manufacturing operations

International sales of this product continued to advance, as RALGRO was licensed for marketing in additional major meat-producing countries. Fertilizer demand and margins increased sharply in 1974, reflecting the pressing need for nitrogen plant foods in the U.S. and abroad. We expect that the market for ammonia, ammonium nitrate and other agricultural chemicals will continue to grow in 1975.

Our research and development have contributed much to CSC's progress. In addition to research at Terre Haute, Indiana, in support of all of our product lines, we perform pharmaceutical research at the laboratories of our Italian subsidiary and industrial explosives research at Seiple, Pennsylvania. CSC's R&D program has three objectives. The first is new product synthesis and new product applications. Second, we work directly with customers, acquainting them with CSC products for their use in developing products and product modifications to meet their specific requirements. Third, through process research, we work to develop new processes and to achieve higher production efficiencies in our manufacturing operations.

As we look at the immediate future we, and others in the chemical industry, are confronted with economic uncertainties that are world-wide. The strength of our Company as we face these uncertainties derives from our diversified product lines, expanding facilities, capable research and sound financial position. These, coupled with the skills of CSC's employees, will enhance our ability to grow in sales and profits on a world-wide basis.

Thomas Pescod, Vice President and Controller

R. C. Wheeler
Vice Chairman of
the Board

W. S. Leonhardt
President and
Chief Executive Officer

Feb. 21, 1975

Commercial Solvents Corporation

Consolidated Earnings and Earnings Retained in Business

	Year Ended December 31, 1974	1973
Revenues		
Net sales	$179,844,571	$128,850,570
Other income (net)	3,486,927	1,213,912
	183,331,498	130,064,482
Costs and expenses		
Cost of sales	118,545,578	93,170,150
Selling, research and administrative expenses	22,131,017	20,590,136
Depreciation, depletion and amortization	8,201,511	6,162,556
Interest on borrowings	1,236,479	934,368
	150,114,585	120,857,210
Earnings from operations before Federal, state and foreign income taxes	33,216,913	9,207,272
Federal, state and foreign income taxes	16,524,933	4,208,587
Earnings from operations	16,691,980	4,998,685
Equity in earnings of investments	268,704	593,434
Minority interest in net earnings of subsidiaries	(118,948)	(138,800)
Earnings before extraordinary items	16,841,736	5,453,319
Extraordinary items net of income taxes	—	6,439,556
Net earnings	16,841,736	11,892,875
Earnings retained in business at beginning of year	51,007,117	40,749,129
	67,848,853	52,642,004
Dividends paid		
Preferred stock ($.90 per share)	102,409	121,169
Common stock ($1.10 per share 1974; $.50 per share 1973)	3,372,625	1,513,718
	3,475,034	1,634,887
Earnings retained in business at end of year	$ 64,373,819	$ 51,007,117
Per share of common stock		
Primary		
Earnings before extraordinary items	$5.44	$1.76
Extraordinary items	—	2.13
Net earnings	$5.44	$3.89
Fully diluted		
Earnings before extraordinary items	$5.10	$1.74
Extraordinary items	—	1.90
Net earnings	$5.10	$3.64

See accompanying notes to financial statements.

Commercial Solvents Corporation

Consolidated Balance Sheet

Assets	December 31, 1974	December 31, 1973
Current assets		
Cash	$ 3,140,777	$ 4,261,498
Time deposits	24,044,858	16,943,098
Accounts and notes receivable (less allowance for doubtful accounts, 1974—$402,243; 1973—$400,390)	28,321,997	22,867,955
Inventories		
Finished products and material in process	20,740,477	14,861,321
Raw material and supplies	11,510,969	7,270,481
Prepaid expenses	772,813	979,165
Total current assets	88,531,891	67,183,518
Investments	2,842,770	2,642,208
Property, plant and equipment, at cost		
Land	1,755,101	1,414,184
Plant, equipment and gas properties	152,665,585	141,017,432
	154,420,686	142,431,616
Less accumulated depreciation, depletion and amortization	97,597,508	91,285,503
Net property, plant and equipment	56,823,178	51,146,113
Goodwill, patents and other intangibles	4,911,803	3,853,344
Deferred charges	685,416	353,465
	$153,795,058	$125,178,648

See accompanying notes to financial statements.

Liabilities and Shareholders' Equity	December 31, 1974	December 31, 1973
Current liabilities		
Accounts payable and notes payable	$ 13,862,478	$ 10,025,758
Accrued Federal and foreign income taxes	16,435,834	5,917,268
Other accrued liabilities	9,842,844	6,650,066
Current installments on long-term debt	899,345	311,176
Total current liabilities	41,040,501	22,904,268
Long-term debt, less current installments	20,790,815	23,261,098
Deferred Federal and foreign income taxes	5,359,898	7,346,964
Other non-current liabilities	3,493,842	2,652,483
Minority interest in subsidiaries	1,701,091	1,713,926
Shareholders' equity		
Preferred stock $20 par value, authorized 1,000,000 shares		
Series A Preferred stock, 4.5% cumulative convertible		
Authorized — 273,400 shares		
Issued — 88,927 shares in 1974; 134,632 shares in 1973	1,778,540	2,692,640
Common stock, $1 par value		
Authorized — 6,000,000 shares		
Issued — 3,173,712 shares in 1974; 3,110,120 shares in 1973	7,130,286	7,066,694
Additional paid-in capital	10,317,206	8,724,398
Earnings retained in business	64,373,819	51,007,117
	83,599,851	69,490,849
Less treasury common stock, at cost — 86,200 shares	2,190,940	2,190,940
Total shareholders' equity	81,408,911	67,299,909
	$153,795,058	$125,178,648

Commercial Solvents Corporation

Consolidated Statement of Changes in Financial Position

	Year Ended December 31, 1974	1973
Source of funds		
Operations		
Earnings before extraordinary items	$16,841,736	$ 5,453,319
Depreciation, depletion and amortization	8,201,511	6,162,556
Deferred Federal and foreign income taxes	(1,987,066)	538,343
Foreign severance indemnity — net	417,389	366,639
Equity in earnings of investments	(268,704)	(593,434)
Funds from operations before extraordinary items	23,204,866	11,927,423
Extraordinary items, net of income taxes	—	6,439,556
Write-off of obsolete fixed assets	—	2,781,102
Revaluation of investment in Northwest	—	(4,078,434)
Deferred Federal and foreign income taxes	—	(1,514,205)
	23,204,866	15,555,442
Effect of purchase and resultant consolidation of Northwest	—	1,335,868
Net book value of property, plant and equipment sold and retired, (principally Northwest in 1973)	327,228	7,792,413
Proceeds from common stock issued under stock option plan	742,300	—
Proceeds from long-term borrowings	135,717	3,251,646
Total	$24,410,111	$27,935,369
Application of funds		
Dividends paid	$ 3,475,034	$ 1,634,887
Expenditures for property plant and equipment	14,205,804	7,596,341
Retirement of Northwest debentures, less tendered by CSC	—	6,595,050
Purchase of CSC convertible subordinated debentures	2,606,000	678,000
Other — net	911,133	492,568
Increase in working capital	3,212,140	10,938,523
Total	$24,410,111	$27,935,369
Increase (decrease) in components of working capital		
Cash (including time deposits)	$ 5,981,039	$15,140,459
Receivables — net	5,454,042	3,430,244
Inventories	10,119,644	(363,218)
Prepaid expenses	(206,352)	(256,270)
Accrued Federal and foreign income taxes	(10,518,566)	(3,140,716)
Accounts payable and other accrued liabilities	(7,029,498)	(3,653,042)
Current installments on long-term debt	(588,169)	(218,934)
Increase in working capital	$ 3,212,140	$10,938,523

See accompanying notes to financial statements.

Notes to Financial Statements

Summary of Accounting Policies

PRINCIPLES OF CONSOLIDATION
The consolidated financial statements include the accounts of all material majority-owned subsidiaries and an undivided one-half interest in an unincorporated joint venture.

TRANSLATION OF FOREIGN CURRENCIES
Current assets and liabilities recorded in the accounts of consolidated foreign subsidiaries, located principally in Canada, Western Europe and Mexico, are expressed in U.S. dollars at current rates of exchange; long-term assets and liabilities are expressed in U.S. dollars at historical rates of exchange. Profit and loss items are expressed in U.S. dollars at the rates of exchange which prevailed during the period. Realized exchange adjustments are recognized currently and such items had no material effect upon earnings in either 1974 or 1973.

Approximately $41,730,000 and $36,269,000 of assets and $27,336,000 and $21,181,000 of net sales included in the consolidated financial statements in 1974 and 1973, respectively, relate to consolidated foreign subsidiaries.

INVENTORIES
Inventories are stated at the lower of cost or market. In 1974 the Company adopted the last-in, first-out (LIFO) method to determine the cost of its domestic inventories. Prior to 1974, cost of all inventories was based on average or standard (which approximated average) cost. Inventories valued under the LIFO method at December 31, 1974 were $22,374,000.

The change to the LIFO method was made because the Company believes LIFO better reflects current operations by providing a closer matching of current costs against current revenues. The effect of the change was to reduce inventories at December 31, 1974 by $3,299,000 and to decrease net earnings and primary earnings per common share by $1,635,000 and $.53, respectively, from what would have been reported under the inventory accounting method used prior to 1974. It is not practicable to restate earlier years to reflect the LIFO method, and therefore, neither the cumulative effect of the change on prior years nor the pro-forma results for such years are presented.

PROPERTY, PLANT AND EQUIPMENT
Depreciation and amortization of plant facilities have been provided on the straight-line method over the useful life of the respective assets ranging from 5 to 50 years.

Depletion and depreciation of gas properties have been provided on the unit-of-production method over the estimated recoverable reserves. All "dry-hole" costs are charged to earnings as incurred.

It has been the policy of the Company to charge to expense the cost of maintenance, repairs and minor renewals. Whenever any major item of equipment is purchased as a replacement, the cost is capitalized and the property, plant and equipment and accumulated depreciation and amortization accounts are adjusted for the equipment replaced. Upon sale or retirement of property, plant and equipment, the cost and accumulated depreciation, depletion and amortization are removed from the respective accounts, and any gain or loss is included in earnings for the year.

GOODWILL, PATENTS AND OTHER INTANGIBLES
Excess cost of investments over equity in the net assets of subsidiaries acquired subsequent to November 1, 1970 amounted to $1,434,000 at December 31, 1974 ($621,000 at December 31, 1973) and is being amortized on a straight-line basis over a 40 year period. Of this amount, $607,000 is included in investments and $827,000 in goodwill, patents and other intangibles. Excess cost of investments over equity in the net assets of subsidiaries acquired prior to November 1, 1970 amounting to $3,748,000, included in goodwill, patents and other intangibles, is not being amortized since in the opinion of CSC there has been no impairment in value.

Patents and other intangible assets are being amortized on the straight-line basis over 4 to 10 year periods.

RESEARCH AND DEVELOPMENT COSTS
Research and development costs are charged to operations as incurred.

INCOME TAXES
Deferred income taxes arise principally from the difference in the Company's method of calculating depreciation for financial statement purposes and for income tax reporting.

CSC has not provided for income taxes on the tax deferred portion of the earnings of a domestic international sales corporation, since the Company has plans for the permanent investment of these funds in qualified export related assets. In addition, CSC's income taxes have been reduced by investment tax credits and additional depletion allowed on Company-owned gas wells.

CSC recognizes investment tax credit in the year eligible assets are placed in service. Investment tax credit amounted to $452,000 in 1974 and $215,000 in 1973.

EARNINGS PER SHARE
Primary earnings per share were determined by dividing net earnings, reduced by preferred dividend requirements, by the average number of common shares and common equivalent shares outstanding during the year of 3,078,446 (1973 — 3,028,320 shares) which included an average of 18,655 common equivalent shares relating to the assumed exercise of common stock options. The average number of shares of common stock used to compute fully diluted earnings per common share assuming the conversion of the Company's outstanding preferred stock and subordinated debentures, and the exercise of common stock options was 3,378,756 (1973 — 3,395,665 shares). See "Shareholders' Equity" below for information concerning the subsequent redemption and conversion of the outstanding preferred stock.

Investments

Investments at December 31, 1974 and 1973, consist primarily of investments in companies in which CSC owns 20% or more of the voting stock, accounted for under the equity method.

At December 31, 1970, CSC sold 45% of the outstanding common shares of Northwest Nitro-Chemicals Ltd. ("Northwest"), thereby reducing its investment in Northwest to slightly less than 50% of the outstanding common shares and certain debentures and preferred stock. CSC determined at the time that the only value remaining in its investment in Northwest was approximately $1,441,000 represented by debentures and preferred stock. The resulting write-down was reflected as an extraordinary charge to 1970 earnings. CSC then applied the equity method of accounting for investments to only the excess of Northwest's earnings over losses. Northwest's unaudited accumulated consolidated net earnings was $1,224,000 for the nine months ended September 30, 1973.

On October 4, 1973, CSC reacquired the common shares of Northwest sold in 1970, thereby increasing its investment in Northwest to approximately 95% of the outstanding common shares. This acquisition was accounted for as a purchase, and the consolidated statements include Northwest's accounts and operations since October 1, 1973.

In October 1973, Northwest sold its fertilizer plant, related facilities and inventories, resulting in an extraordinary gain of approximately $4,113,000 net of income taxes.

Since Northwest's revenues prior to the sale were derived totally from operations of the fertilizer plant, the presentation of CSC pro-forma results of operations as if the 95% interest in Northwest had been reacquired on January 1, 1973 would not be indicative of continuing operations.

In connection with the sale of the plant, Northwest made a cash tender offer on August 31, 1973 to purchase any or all of its outstanding Debentures. Debentures in the principal amount of $7,656,000 were tendered and were subsequently cancelled. Funds were deposited with the Trustee to pay the principal and interest to maturity on all Debentures which were not tendered. These transactions resulted in an extraordinary gain net of taxes of approximately $759,000.

Extraordinary Items

The net extraordinary gain in 1973 aggregating $6,440,000, net of income taxes, consists of CSC's approximately 95% interest in Northwest's extraordinary gains, described above, of $4,628,000, a gain of $3,827,000 on the revaluation of CSC's investment in Northwest and related transactions, and a loss of $2,015,000 from the write-off of certain CSC obsolete facilities, as approved by CSC's Board of Directors at their September 1973 meeting.

CSC's investment in Northwest was reinstated to the extent of its equity in the net assets of Northwest, since the fertilizer plant sale changed the circumstances requiring the 1970 write-down.

The foregoing net extraordinary gain includes a net tax benefit of $799,000 reflecting an income tax credit relating to the write-off of CSC's obsolete facilities which has been reduced by Canadian taxes applicable to the Northwest extraordinary gain. Such taxes have been minimized as a result of various valuation allocations and other items permissible under Canadian tax statutes. In 1970, when CSC's investment in Northwest was written down, no provision for tax benefits was made; therefore, no tax has been provided for on the current revaluation thereof.

Long-term Debt

Long-term debt outstanding at December 31, 1974 and 1973 is shown in the following summary:

	December 31,	
	1974	1973
4½% Convertible Subordinated Debentures due July 1, 1991	$20,000,000	$20,000,000
Less debentures held by CSC, at par value	3,284,000	678,000
	16,716,000	19,322,000
Debt of foreign subsidiaries	4,074,815	3,939,098
	$20,790,815	$23,261,098

The Debentures are convertible into common stock of the Company at $68 per share, and 245,824 shares of common stock were reserved for the conversion of outstanding Debentures at December 31, 1974. The Debentures are subject to redemption at the option of the Company at prices ranging from 102.50% at December 31, 1974 to 100% of the principal amount on July 1, 1986 and thereafter. Annual sinking fund payments of $1,000,000 in 1977 through 1990 are required; the Company has the option of reducing the sinking fund payment in any year by the principal amount of Debentures theretofore issued and acquired by the Company and not used to reduce a payment in a prior year. The Indenture also imposes certain restrictions including, among others, those pertaining to the payment of dividends other than stock dividends.

At December 31, 1974, $31,929,000 of earnings retained in business was free of the restrictions contained in the Indenture.

CSC purchases of its Debentures are summarized below:

	1974	1973
Par value	$2,606,000	$678,000
Cost	1,514,000	412,000
Profit included in other income	$1,092,000	$266,000

Shareholders' Equity

On December 19, 1974, CSC announced that it would redeem all outstanding Series A 4½% Cumulative Convertible Preferred Stock, $20 par value, which had voting rights and was convertible on the basis of .597 of a share of common stock for each share of such preferred stock.

The redemption price was par value plus dividends accrued through the redemption date, January 31, 1975; conversion privileges expired on January 24, 1975.

Redemption and conversion of preferred shares are summarized below:

	Preferred Shares		Common Shares
	Converted	Redeemed	Issued
During 1974	45,705	None	27,242
Subsequent to December 31, 1974	20,507	68,420	12,115

No shares were converted during 1973.

During 1973 the Company purchased 8,800 shares of common stock for its treasury at a cost of $110,000. None were purchased during 1974.

A summary of changes in additional paid-in capital during 1974 is as follows:

Balance, January 1, 1974	$ 8,724,398
Excess of proceeds over par value of:	
Preferred stock converted	886,858
Stock Options exercised	705,950
Balance, December 31, 1974	$10,317,206

There were no changes in additional paid-in capital during 1973.

International Minerals & Chemical Corporation ("IMC"), an owner of approximately 46% of CSC's outstanding stock, and CSC agreed in principle for IMC to acquire CSC in a cash merger providing for CSC shareholders to receive $45 for each CSC share held by them, subject to the approval of a definitive merger agreement by the Boards of Directors of both companies and by the shareholders of CSC, and to the satisfaction of customary closing conditions. The merger would be a taxable transaction to CSC shareholders.

Pensions

The Company has pension plans covering substantially all of its employees. The total pension expense was $1,066,000 for the year 1974 and $1,072,000 for 1973, which included, as to certain of the plans, amortization of prior service costs over periods up to 40 years. The Company's policy is to fund pension costs accrued. The excess of actuarially computed vested benefits over funded amounts and accruals approximated $1,577,000 at December 31, 1974. The Company's plans substantially comply with the requirements of the recently enacted Employee Retirement Income Security Act of 1974.

Stock Options

The Company has a qualified stock option plan under which options to purchase common shares may be granted at a price not less than 100% of the fair market value at the date of grant. Options are for a term not to exceed five years and become exercisable one year after the date of grant. The following table sets forth certain information concerning the plan during 1974 and 1973:

	1974		1973	
	Common Shares	Per Share	Common Shares	Per Share
Options outstanding — beginning of year	92,000	$15.50 to $25.00	47,200	$22.25 to $25.00
Options granted	9,000	$21.25	45,550	$15.50 to $17.00
Options exercised	(36,350)	$15.50 to $22.25	—	—
Options expired or cancelled	(16,450)	$15.50 to $22.25	(750)	$22.25
Options outstanding — end of year	48,200	$15.50 to $25.00	92,000	$15.50 to $25.00

At December 31, 1974, 15,450 shares (8,000 shares at December 31, 1973) were reserved for which no options had been granted and options for 39,200 shares were exercisable.

Contingencies

The Company's Federal income tax returns for the years 1962 through 1970 have been examined by the Internal Revenue Service and certain deficiencies have been assessed against the Company. The deficiencies resulted primarily from differences which changed the period in which certain expenses can be taken for tax purposes. The Company is of the opinion that no additional provision for taxes will be required.

Report of Certified Public Accountants

The Board of Directors and Shareholders
COMMERCIAL SOLVENTS CORPORATION

We have examined the accompanying consolidated balance sheet of Commercial Solvents Corporation at December 31, 1974 and 1973 and the related consolidated statements of earnings and earnings retained in business and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the consolidated financial position of Commercial Solvents Corporation at December 31, 1974 and 1973 and the consolidated results of operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the period except for the change in 1974, with which we concur, to the LIFO method of valuing domestic inventories as described in Notes to Financial Statements.

ARTHUR YOUNG & COMPANY

277 Park Avenue
New York, New York 10017

February 21, 1975

Restatement of Quarterly Earnings

The change to the last-in, first-out (LIFO) method for valuing the Company's domestic inventories had the following effect on previously reported net earnings for the first, second and third quarters of 1974:

	Quarter Ended		
	Mar. 31	June 30	Sept. 30
Net earnings:			
Before LIFO	$2,564,000	$5,081,000	$5,743,000
Effect of change to LIFO	385,000	547,000	282,000
After LIFO	$2,179,000	$4,534,000	$5,461,000
Per share of common stock:			
Before LIFO	$.83	$1.65	$1.86
Effect of change to LIFO	.12	.18	.09
After LIFO	$.71	$1.47	$1.77

Classes of Products

The Company manufactures for sale chemicals and chemically derived specialty products that are made for the chemical and other industries, human use and agriculture. The three classes of products sold by the Company and its consolidated subsidiaries and their respective percentages of gross business volume for the last five years are:

	Percent of Consolidated Net Sales				
	1974	1973	1972	1971	1970
Products for the chemical and other industries	64%	60%	60%	58%	61%
Products for human use	17	20	22	24	22
Products for agriculture	19	20	18	18	17
	100%	100%	100%	100%	100%

Securities Entitled to Vote at Annual Meeting

Only common shares of the Corporation are entitled to vote at the meeting. These shares are principally traded on the New York Stock Exchange. The quarterly range of the prices paid on that Exchange and the quarterly dividends per share were as follows:

	Prices		Dividends
1973:	High	Low	Per Share
First Quarter	$19\frac{7}{8}$	15	$ .10
Second Quarter	$15\frac{5}{8}$	$10\frac{3}{8}$	.10
Third Quarter	21	$10\frac{1}{4}$	.15
Fourth Quarter	$22\frac{1}{8}$	12	.15
			$ .50
1974:			
First Quarter	$29\frac{3}{8}$	$14\frac{7}{8}$	$ .20
Second Quarter	$32\frac{7}{8}$	$22\frac{3}{8}$	.25
Third Quarter	31	$26\frac{1}{2}$	.30
Fourth Quarter	$37\frac{1}{4}$	$28\frac{5}{8}$	.35
			$1.10

Operations Review

NP's and their Derivatives

The NP Division has achieved substantial progress during the past year in broadening the markets for its products. Particularly encouraging is the development of new areas of application such as the field of water treatment, where AMP-95 has a promising new use for corrosion inhibition and carbon dioxide absorption in boiler feed water operations. The versatility of this specialty chemical is evident in its established uses as a pigment dispersant and buffer in latex paints and pigment slurries, an emulsifier in resin systems for water soluble coatings, a catalyst for curing textile and other resins and as a neutralizer in aerosol hairspray applications.

Demand has been growing in industrial applications for hydroxylamine salts, used as reducing and oxidizing agents in dyeing and in purification and refining processes. A new product, ALKATERGE®-E, has been introduced as a surface active agent which serves as a penetrant in the paper and textile industries and in metal cleaning formulations.

Favorable progress in our biocide program is reflected in increased sales of CSC's antimicrobial agents, BIOBAN® P-1487 and TRIS NITRO® for cutting fluids and metal working lubricants and TRIS NITRO in additional disinfectant applications. An effective amine buffer, TRIS AMINO®, is being used increasingly in cosmetic, pharmaceutical and other applications.

A major expansion of basic NP facilities was started during the year and is scheduled for completion in 1975 to meet growing demands for these products in the market place and in the manufacture of derivatives. Recently completed expansions at CSC's Sterlington, Louisiana, and Terre Haute, Indiana, plants provide greater volumes of hydroxylamine salts and specialty products for the rubber industry.

Specialty Resins

Record 1974 results were achieved by McWhorter Chemicals Division, manufacturer and marketer of resins, alkyds, flat liquids and resin catalysts. Among promising new products is AQUAMAC® 1070, an air dried, water soluble resin for baking primers and enamels. Introduced at the Paint Show in Atlanta, Georgia, in October 1974, the new product has been well received by automotive, appliance and other industries requiring a stable and durable protective coating which complies with Environmental Protection Agency and other regulatory provisions.

Among McWhorter's emerging markets which will receive strong emphasis in 1975 is the protective maintenance field for which many of the Division's products are particularly well suited. Plans for expansion of McWhorter Division are under way.

L. D. Pals, Divisional Vice President and General Manager, NP Division, discusses customer application of new NP-based product with technical staff member.

At McWhorter Chemicals' plant, Hillside, Illinois, R. W. Schreurs, Divisional Vice President and General Manager, inspects new protective coatings products.

International Operations

Sales and contributions to profits from CSC's international operations increased in 1974. The year was marked by significant expansions in various parts of the world.

Our new plant at Ibbenbüren, West Germany, commenced operations. It manufactures NP derivatives for the pharmaceuticals, cosmetic, coatings and textile industries of Western Europe and Australasia, using raw materials supplied by CSC's Sterlington, Louisiana, plant. Markets for the NP's in a variety of Western European industries have been developed in recent years. Strong demand for NP's continues in Latin America, and markets for these products are growing in Australia and the Far East. Further capital investment for manufacture of additional NP derivatives at Ibbenbüren is currently under consideration. Plans are also proceeding for a large basic NP plant in Europe; several sites, including Grangemouth, Scotland, are under study.

In 1974, the animal health and nutrition portion of our international business achieved positive gains in sales, profits and market penetration. CSC's RALGRO® anabolic implants for beef cattle and feedlot sheep are now marketed in 30 countries outside the U.S., compared to 19 a year ago. In addition, plans for the establishment of effective marketing systems in France, Belgium and the Netherlands are underway, and further new clearances for RALGRO are expected in a number of countries in 1975. Important sales volumes have been achieved in Argentina and South Africa, and the United Kingdom and Brazil show particular promise for RALGRO marketing in 1975. Sales of BACIFERM® antibiotic feed additives and choline chloride feed supplements showed a favorable trend in international markets during the past year.

The new thermal carbon black plant of our Canadian subsidiary achieved commercial status during the year. Approximately 50 per cent of its output is sold in Canada and in the United States, and the balance goes to Japan, Western Europe, Australia and Latin America. Major fields of application for the product are the rubber, wire and cable, and metallurgical industries.

In Spain, one of our affiliates acquired an industrial chemicals manufacturing facility during the year. This action increases the availability of certain specialty products for the Spanish market.

Among CSC's international operations is the ethical pharmaceutical and fine chemical business. The market for our Italian subsidiary's heart drugs has been extended to Spain, and plans call for the introduction of these products shortly in Mexico, Argentina and Brazil. A new postmenopausal drug, RALONE®, the first product of CSC's resorcylic acid lactone (RAL) research for human application, will be marketed in 1975 by our subsidiaries and affiliated companies in Italy, Spain, Mexico, Argentina and Brazil.

O. W. Chandler, Divisional Vice President and General Manager, International, reviews plans for new European NP production facility seen at left.

CSC's principal international subsidiaries and affiliates are:

CSC-Chemie GmbH, Cologne, West Germany — specialty chemicals, bulk pharmaceuticals and animal health and nutrition products; operates new NP derivatives plant at Ibbenbüren, West Germany.

Istituto Chemioterapico Italiano, S.p.A., Milan, Italy — ethical and proprietary drugs and fine chemicals; pharmaceutical research operations.

Industrial Kern Española, S.A., Barcelona, Spain — animal health and nutrition products, specialty and industrial chemicals; acquired *Industrial y Commercial Quimicos, S.A.,* in 1974 — metal compounds for animal feeds and other uses.

Laboratorios Calier, S.A., Barcelona, Spain — veterinary specialties.

Laboratorios Llorens, S.A., Barcelona, Spain — ethical and proprietary drugs.

Vetiquima-Produtos Quimicos, Lda., Lisbon, Portugal — animal health and nutrition products, veterinary specialties and specialty chemicals.

Comsolmex, S.A., Mexico City, Mexico — specialty chemicals, industrial chemicals and animal health and nutrition products.

Dismedic SACIFI, Buenos Aires, Argentina — animal health and nutrition products, specialty chemicals and pharmaceuticals.

Instituto Terapêutico SCIL Ltda., Rio de Janeiro, Brazil; acquired in 1974 — ethical pharmaceuticals.

Cancarb Ltd., Medicine Hat, Alberta, Canada — thermal carbon black.

Animal Health and Nutrition

Despite recent declines in U.S. beef production, CSC's Animal Health and Nutrition Division continues to conduct an active marketing program for its RALGRO brand of zeranol anabolic implants. Since its introduction in 1969, the market for RALGRO has grown to include all beef cattle and sheep producing areas in the United States and 30 other meat producing countries.

An effective means of improving weight gain and feed efficiency in all classes of beef cattle, RALGRO is of increasing interest to ranchers conducting cow-calf operations, where early implantations have resulted in consistently higher weight gains, thus greater profits. To facilitate the implant procedure, CSC has introduced the RAL O GUN™, which insures the deposit of three precise doses of RALGRO.

Continuing field analyses show RALGRO to be particularly effective for animals on low energy rations. Field trials have also shown that RALGRO implanted animals yield better qualities of meat. These are important considerations for cow-calf operations and intermediate operations where cattle are range fed.

Sales of BACIFERM, CSC's zinc bacitracin feed supplement for cattle, swine and poultry feeds, continue to reflect the growing popularity of this product and its effectiveness in helping combat gastric and other livestock ailments. The Food and Drug Administration has cleared BACIFERM for broad range use in combination with a well known coccidiostat, and an additional clearance with another such product is anticipated in 1975.

Substantially increased demand for choline chloride, a CSC feed supplement for poultry and swine, has resulted in improved profit contribution of this product in 1974.

Industrial Explosives

CSC's Trojan-U.S. Powder Division had significant increases in sales and profits in 1974. It manufactures and distributes the broadest line of explosives and blasting agents in the industry. This enables customers to select explosives and accessories which possess "tailor made" properties for specific blasting jobs. With the market trending to the greater use of specialty explosives, Trojan-U.S. Powder is in an excellent position to further boost its growing contribution to sales and profits. Among the Divi-

Visiting a feedlot where RALGRO field tests are in progress is G. E. Hines, Divisional Vice President and General Manager, Animal Health and Nutrition.

New explosive booster packaged in a can is examined by G. L. Griffith, Divisional Vice President and General Manager, Trojan-U.S. Powder.

sion's well known product lines are TROMAX®, non-cap-sensitive high explosives and TROJEL® water slurries.

A new product introduction in 1974 enhances this marketing flexibility. PRIMACAN™, the industry's first explosive booster to be packaged in a can, provides greater safety, reliability and economy in blasting operations than conventional boosters on today's market. The new product, available to users from Trojan-U.S. Powder's more than 50 distribution points throughout the continental United States, has been well received in the trade.

PRIMACAN is a product of the Trojan-U.S. Powder research program where current work continues on the development of non-nitroglycerine cap-sensitive explosives to meet requirements of a growing but more selective market.

The acquisition in 1974 of a detonating cord manufacturing facility in Austin, Texas, adds to CSC's industrial explosives capabilities.

Thermatomic Carbon

Demand for thermal blacks, THERMAX® and P-33®, was strong during most of 1974. These products are used by rubber compounders for mechanical rubber goods and in certain plastics and metallurgical industry applications. Sales of thermal carbon blacks can be expected to be affected by automobile industry cutbacks.

Industrial Chemicals

The Industrial Chemicals Division was a strong profit contributor in 1974. The Division's major products, alcohols, methylamines, polyols and monosodium glutamate, were under allocation during most of 1974. Sales of methylamines have been buoyed by agricultural demand. Polyols, including TRIMET®, are key ingredients in high performance polyester resins and are in strong demand in a variety of other applications including oil additives, synthetic lubricants and in titanium dioxide pigments.

Fertilizers

Sharply rising demand and improved profit margins characterized our agricultural chemicals business throughout 1974. Marketing profit from our 1974 ammonia and ammonium nitrate business climbed to record levels, and unabated demand for our fertilizers is seen for the current year. The long range outlook for CSC's fertilizer business is one of sustained profitable growth, with the need for ammonia based nitrogen fertilizers in U.S. and world agricultural markets expected to increase in the years ahead.

Gas Operations

Exploration and drilling activities by our Louisiana and Navarro Gas Production Divisions of Monroe, Louisiana, from which our Sterlington manufacturing complex derives much of its required raw material feedstocks, were continued throughout 1974. Efforts to increase the output from our Louisiana gas fields will continue in

B. B. Blocker, Divisional Vice President and General Manager, Industrial Chemicals, holds planning session on customer service programs.

the current year and will be complemented by the combined activities of CSC and International Minerals & Chemical Corporation under a new agreement jointly to explore for, develop and produce oil, gas and other hydrocarbons.

Research and Development

CSC's research and development work in the past years has been responsible for many of our most important and profitable current products for industry, for human use and for agriculture. Our research programs in Terre Haute, Indiana; Milan, Italy, and Seiple, Pennsylvania, and additional research by customers, have led to the utilization of CSC specialty chemicals in the manufacture of many end use products.

The synthesis of new compounds from the NP and RAL families; the development of new uses and applications, and safety evaluation were important parts of 1974 research programs.

Among research areas of particular emphasis at CSC today are new biocides, waxes, resins and water treatment chemicals for industry; pharmaceuticals for the endocrine system and geriatric conditions; a new generation of products in the animal health and nutrition field, and in industrial explosives.

A significant part of our research effort is devoted to the development of new, more efficient processes for some of our present products and to the discovery of technically and economically feasible processes for new products. This work typically starts with bench chemistry, then moves to the pilot plant stage and ultimately becomes full scale plant design.

L. A. Everett, Divisional Vice President and General Manager, Agricultural Chemicals, negotiates sales of anhydrous ammonia shipped by jumbo tank cars from our Sterlington plant.

Natural gas pipeline installation is inspected by E. W. Warren, Divisional Vice President and General Manager, Louisiana and Navarro Gas Production Divisions.

Commercial Solvents Corporation

Five Year Summary

($000 Omitted)

Summary of Operations	1974	1973	1972	1971	1970
Revenues:					
Net sales	$179,844	$128,851	$111,198	$ 99,639	$ 99,504
Other income — net	3,487	1,214	857	468	579
	183,331	130,065	112,055	100,107	100,083
Costs and expenses	150,115	120,857	108,486	96,267	96,467
Earnings from operations before Federal, state and foreign income taxes	33,216	9,208	3,569	3,840	3,616
Federal, state and foreign income taxes	16,524	4,209	1,221	1,610	1,673
Earnings from operations	16,692	4,999	2,348	2,230	1,943
Equity in earnings of investments and minority interest in subsidiaries	150	454	(229)	(144)	(60)
Northwest Nitro-Chemicals Ltd. operations net of income taxes	—	—	—	—	(1,004)[a]
Earnings before extraordinary items	16,842	5,453	2,119	2,086	879
Extraordinary items net of income taxes	—	6,440[b]	—	—	(6,624)[c]
Net earnings (loss)	16,842	11,893	2,119	2,086	(5,745)
Preferred stock dividends	103	121	121	121	121
Net earnings (loss) applicable to common stock	$ 16,739	$ 11,772	$ 1,998	$ 1,965	$ (5,866)
Per share of common stock:					
Primary					
Earnings before extraordinary items	$5.44	$1.76	$ .66	$ .65	$ .25
Extraordinary items	—	2.13	—	—	(2.18)
Net earnings (loss)	$5.44	$3.89	$ .66	$ .65	$(1.93)
Fully diluted[d]					
Earnings before extraordinary items	$5.10	$1.74			
Extraordinary items	—	1.90			
Net earnings	$5.10	$3.64			
Average number of common shares and common equivalent shares outstanding (000 omitted)					
Primary	3,078	3,028	3,033	3,033	3,033
Fully diluted	3,379	3,396			
Dividends per common share	$1.10	$ .50	$ .40	$ .40	$ .40

(a) When operating as a fertilizer manufacturing subsidiary.
(b) See accompanying notes to financial statements.
(c) Includes $2,469 write-off of obsolete facilities and $4,155 revaluation of investment in Northwest Nitro-Chemicals Ltd.
(d) The per share effect, assuming the conversion of the Company's outstanding preferred stock, Subordinated Debentures and the exercise of common stock options would have been anti-dilutive for the years 1970-1972.

Financial Position[a]	1974	1973	1972	1971	1970
Total assets	$153,795	$125,179	$104,645	$102,446	$100,775
Current assets	88,532	67,183	49,232	43,666	40,676
Current liabilities	41,041	22,904	15,891	14,933	12,535
Working capital	47,491	44,279	33,341	28,733	28,141
Property, plant and equipment (gross)	154,421	142,432	142,443	140,861	136,407
Property, plant and equipment (net)	56,823	51,146	48,186	51,889	52,784
Long-term debt	20,791	23,261	20,687	20,328	21,848
Shareholders' equity	81,409	67,300	57,151	56,367	55,615
Employees and Stockholders					
Number of employees at year-end	3,182	2,833	2,777	2,844	2,972
Wages and salaries	$ 30,147	$ 25,845	$ 24,613	$ 24,385	$ 24,251
Cost of pensions and other benefits	$ 5,070	$ 4,672	$ 3,861	$ 3,428	$ 3,037
Number of shareholders at year-end[b]	15,833	21,817	21,893	22,921	23,810

(a) Includes Northwest Nitro-Chemicals Ltd. for the years 1973 and 1974.
(b) Includes estimated number of beneficial owners.

Management's Discussion and Analysis of the Summary of Operations.

The 1974 net sales increased by 40% over those for the year 1973, primarily due to a greater demand for industrial chemicals, industrial explosives and fertilizers, and generally higher selling prices. Net sales for 1973 increased 16% over those for 1972. This was also attributable to an increase in sales volume for most of the products sold by the Company and by higher selling prices.

In 1974 other income mainly consisted of interest of $2.4 million ($.8 million in 1973) earned on short-term investments and income of $1.1 million ($.3 million 1973) resulting from purchase of the Company's Subordinated Debentures.

Costs and expenses include:

	Amount ($000 omitted)		Percent of Net Sales	
	1974	1973	1974	1973
Cost of goods sold	$126,748	$ 99,332	70.5%	77.1%
Selling, research and administrative expenses	22,131	20,590	12.3	16.0
Interest on borrowings	1,236	935	.7	.7
	$150,115	$120,857	83.5%	93.8%

The 27.6% increase in cost of goods sold in 1974 reflects the increase due to the higher sales volume and in part to the generally higher cost of raw materials.

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Chemical Bank
55 Water Street
New York, N.Y. 10041

Registrar
The Chase Manhattan Bank, N.A.
One New York Plaza
New York, N.Y. 10015

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International Minerals & Chemical Corporation

First Quarter Report 1975/76

DEC 8 1975

Sixty-Sixth Annual Meeting

(In thousands except per share amounts) Quarter ended September 30	1975	1974
First Quarter Sales and Earnings		
Sales	**$292,168**	$286,621
Earnings before income taxes and extraordinary items	**56,389**	50,654
Earnings before extraordinary items	**32,089**	29,054
Extraordinary tax credit	**—**	900
Net earnings	**32,089**	29,954
Primary earnings per share		
Before extraordinary items	**1.86**	1.85
Net	**1.86**	1.91
Fully diluted earnings per share		
Before extraordinary items	**1.75**	1.61
Net	**1.75**	1.66
Dividends per common share	**.50**	.24

All per share amounts adjusted to reflect a 33⅓% stock distribution on December 9, 1974.

(In thousands except per share amounts) At September 30	1975	1974
Additional Financial Data		
Cash, deposits and marketable securities	**$ 29,803**	$ 66,618
Receivables	**192,072**	171,484
Inventories	**205,448**	99,807
Current assets	**427,323**	337,909
Current liabilities	**246,559**	144,666
Net working capital	**$180,764**	$193,243
Property, plant and equipment	**$538,591**	$327,251
Investments	**52,722**	98,459
Long-term debt	**272,306**	263,442
Shareholders' equity	**500,922**	338,694
Capital spending	**32,843**	29,674
Depreciation and depletion	**12,403**	5,813
Book value per common share	**27.66**	18.71
Average shares	**17,067**	15,366

All per share amounts adjusted to reflect a 33⅓% stock distribution on December 9, 1974,

To Our Shareholders:

R. A. Lenon

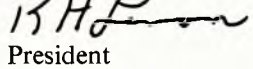
Some 500 shareholders and guests attended the Corporation's sixty-sixth Annual Meeting on October 1 at the First Chicago Center in The First National Bank of Chicago.

We were just closing the books on the first quarter ended September 30, and the results of that quarter are shown on the facing page.

We remarked at the Meeting that it appeared that for the quarter we would have a modest gain in dollar earnings and in earnings per fully diluted share, but that conversions of preferred stock and debentures had increased the number of common shares and would result in primary per share earnings approximating the $1.85 reported in the first quarter last year. The final primary per share figure was $1.86. The fully diluted earnings per share were $1.75 in this year's quarter and $1.61 in the same period last year.

We also commented that in relationship to any reasonable standard we are thinking of another very good year for IMC, with exports of phosphate rock the key to ultimate results. This and other discussions of interest to shareholders are summarized on the following pages.

Sincerely,



President

Libertyville, Illinois October 24, 1976

(*Following is the text of President R. A. Lenon's report at the Annual Meeting.*)

As you know, for the year that ended last June, we reported a 182 percent gain in earnings on a 52 percent gain in sales. The per share was $9.91 primary, or $8.90 fully diluted.

While we were favored by better agricultural markets than anyone expected, and enjoyed a lot of just plain good luck, it is fair to say that IMC was ready and that not many good opportunities escaped us.

Concurrently, new plants got built, old plants got refurbished, nearly 17 million tons of product got sold and delivered, and a goodly number of promising young people moved into positions of increased responsibility.

Almost equally pleasant, our industrial materials and chemical businesses contributed an important $1.86 per share to the total corporate result. We have no intention of trying to shed our agricultural image, but we are trying to build other natural resource-based activities—and last year, for the first time, we got a meaningful result.

Of course, the past means nothing today; so let's turn to future prospects. For the quarter that ended yesterday—that is, the first quarter of the new year—it appears that we will report a modest gain in dollar earnings and in earnings per share on a fully diluted basis. Primary per share will approximate the $1.85 reported for the first quarter last year.

The primary per share does not track the increase in dollar earnings and the diluted per share because we now have more shares outstanding. The additional shares were issued when holders of preferred stock and debentures converted into common.

Looking at sources of income in the first quarter, it appears that agriculture contributed almost 90 percent of earnings. While domestic agricultural sales are now back to a more normal seasonal pattern, we are getting substantial pluses from higher prices on export sales of phosphate rock. Domestic sales of potash slightly exceeded expectations in the quarter, and there was a modest improvement in animal feed ingredient activity.

Our industrial materials business produced a modest gain over last year despite a continuation of the doldrums in worldwide iron, steel, and foundry markets.

So much for the first quarter.

Outlook for the Year

For the year, it appears that there may be a stand-off on dollar earnings and per share fully diluted. Primary per share may be off in the range of 5 percent to 10 percent, again a function of having more shares outstanding. Not at this point—or ever, for that matter—am I going to trot out that "second best year" line because what happened last year was unreal. In relation to any reasonable standard we are thinking of another very good year for IMC.

Let's look at the pluses first and then the minuses—both as seen now, and subject to further evaluation and articulation as we go along into the year, a year with more than the usual number of uncertainties.

Fertilizer Demand Picture

Most important, there will be a strong demand for basic fertilizer materials. Under-fertilization

has hurt crop quality and quantity; prospects for grain prices are reasonably favorable, and fertilizer inventories down close to the farm have been pretty well flushed out. Thus, with any kind of decent weather, farm-level fertilizer demand should increase by a healthy 7 percent.

Domestic supplies of phosphate rock, potash, and most forms of nitrogen will be adequate—probably about right. So the situation looks good for both the buyer and the seller. However, shortages in nitrogen could occur if there are severe natural gas curtailments this fall and winter.

Concentrated phosphates is the problem area. Responding to a worldwide shortage, IMC, and the industry generally, moved to build new plants and rehabilitate old plants. Specifically, in the year just ended, industry capacity increased by 22 percent. Prices have declined sharply in all markets.

Our concentrated phosphate plant in Florida is in the final start-up stages. Essentially all of the label capacity has been contracted for on long-term contracts, and deliveries in accordance with those agreements are beginning on this day. But a goodly part of our profit in this plant is to come from production above the label, and that level of output will probably not come in 1976. Major mechanical problems seem to be behind us, but we continue to be bothered by a series of minor aggravations. Further, excess supply in the marketplace may make it difficult to achieve total potential in the short term.

Of major importance, we plan to produce roughly 10 percent more phosphate rock this year than last. All of the increase, and more, will be consumed by our new Florida concentrated phosphate plant. Rock prices are good and holding. For IMC, most of our domestic business is on contract—with prices ranging from fair to low to troublesome. Our export business goes at much higher prices, and this is the key to how close—plus or minus—we come to the estimate of earnings I gave you a moment ago.

Potash volume will be up and prices are firm to higher. However, there is a tax problem in connection with potash, and I will comment on that shortly.

Fertilizer trading, the buying and selling of products we do not make, will be phased out in this year. This was a good business for us when supplies were tight all over the world. Matching an urgent need to a hard-to-find supply was a valuable service for which we could collect a good fee. With supplies now more adequate, the trading opportunity has diminished.

Chemicals and Industrial Materials

Between chemicals and industrial materials, we hope for 1976 earnings of approximately $1.70 per share, on the assumption of a modestly improving economy as we go along through the year. The holding of 100 percent of Commercial Solvents for a full year, rather than only the partial equity interest we held for most of last year, will not have a favorable impact on 1976 results. The impacts of the recession are still with us and we do not see really good operations within the short period of the next nine months.

Commitments to exploration for phosphate, potash, industrial minerals, and oil and gas will total $14 million, up some $5.4 million from last year. This is spending now for future benefit.

Lastly, there will be no major recoveries from assets previously written off—a difference of almost $7 million as we look between the two years. In addition, we are looking at an effective tax rate of 44 percent this year compared with 41.1 percent last year.

I do not think it is necessary in giving this forecast to make any caveats for strikes, acts of God, or other similar events.

Escalation of Costs

Now to matters of related concern. Costs continue to escalate, and just where this is going to stop we really don't know. Adjusting out for increases related to higher volume, we absorbed $130 million in higher costs last year. This year—again adjusting out for higher volume—we are looking at another $100 million in higher costs. As one small example: our energy bill per ton of phosphate rock was 76 cents in 1972, and it will be at least $2.20 per ton this year.

While escalation clauses in our long-term rock contracts protected us against historical trends, they do not cover what occurred in the last two years. Some renegotiating has been done and some terms remain unresolved.

Along this line, much has been written on the high price of fertilizers; and I certainly would quite agree that there were excesses in the grey market, particularly in exports. But all of that was wiped out in a matter of a few months by an increase in supply, a short-run decline in demand, and a return to more sensible buying practices.

In thinking more about price/cost trends, we find ourselves working with almost unbelievable numbers. Five years ago, ammonia was being produced at costs in the range of $25 to $30 per ton, and probably in some plants a bit lower. In the same plants, the costs now range upward from $65 per ton—that is, assuming a natural gas price of $1.25 per thousand cubic feet. When gas goes up to $2.00, as it will, that will add another $28 to the cost of a ton of ammonia.

If we make this same ammonia in a new plant, the cost per ton will certainly range up to $85, with $110 more likely. I am talking about cost now—no profit included in these considerations.

For other fertilizer products, the numbers on production costs per ton are just as startling, and perhaps more so.

Impact on Fertilizer Prices

Obviously, fertilizers on the farm are going to cost more, a lot more, even in times of fully adequate supply. And this—and higher costs of all other inputs on the farm—means higher food prices—or higher taxes, if the country should return to subsidies in one form or another.

On the economics of the use of fertilizers, roughly 40 percent of all U. S. grain produced is attributable to current fertilization practices. This year the United States will produce 100 million tons of grain in excess of its domestic needs, and this excess will generate $12 billion in foreign exchange. The $12 billion is more than 40 percent of the cost of all imported oil.

In short: without fertilizer the United States could not feed itself; with fertilizer the United States feeds itself and contributes to a favorable balance of payments while at the same time helping to feed others.

For the farmer, at current prices for corn and fertilizers, he gets approximately $2 to $3 for each dollar invested in fertilizer.

External Considerations

Now to external considerations. Our potash problems in Saskatchewan are highly publicized. We are doing relatively well today, but expansion is precluded by the high current costs I mentioned earlier, and the new Saskatchewan potash reserve tax. We are locked out of the benefits of appreciably higher volume, we always have a price risk, and costs are constantly going up. We must break out of this trap, and this is the reason for the legal actions we and 10 other Saskatchewan potash producers are taking.

In the United States we watch with apprehension the talk of removal of the percentage depletion allowance on minerals, and some proposals related to foreign income.

On environmental matters, we are in good shape. At all major locations, we are in compliance currently, and we fear only what we cannot do technically—mostly requirements pending several years out. We are also watching the strip-mining controversy, which now involves only coal, but would likely have an impact on us in due course.

All of this, of course, involves higher costs, about which I was talking a few minutes ago.

Fertilizers and Grain Demand

It would be easy to expand on the problem areas —and run out of time for talking about the good things we have going for us. Let's take a look at the major market—the U. S. farm. During the 1950's and the 1960's, the U. S. farm supplied from 35 percent to 40 percent of the world's grain import needs. Over the past three years we have been supplying 45 percent to 50 percent. Many factors across the world are involved—population growth, crop failures in critical areas, and, probably most important, there is the insistent demand for more animal proteins such as milk products, poultry, and red meat. In fact, 54 percent of *all* fertilizer used in the United States goes on feed grains.

Now, we are seeing a world with the United States, Canada, Australia, Brazil, Argentina, France, and a few smaller countries as exporters. Japan, Russia, West Germany and the Middle East are grain importers, with money to pay or the resources to trade. In other areas, we see great needs coupled with the inability to pay, and that was the subject of the United Nations Food Conference in Rome last year.

As the realities of this situation come more into focus, there is the beginning of more sensible arrangements between countries. The United States' three-year, 14-million-ton grain contract with Japan is an example. Discussions with Russia have started, hopefully leading to a long-term contract to buy American grain.

With the United States acting as a granary for the world, the positive implications for the U. S. fertilizer industry are obvious. Again, 40 percent of all the farmer gets from the ground is attributable to the commercial fertilizer he applies.

IMC has good positions in all segments of this dynamic market. We have the lowest cost position in phosphate rock and potash, and our Florida concentrated phosphate plant is the largest in the

world. In nitrogen there will be large gains as low-priced contracts run out in 1977 and '78. Concurrently, we will have production from a new 1,150-ton-per-day plant now scheduled to come on stream in 1977.

The combination of Commercial Solvents and Sobin Chemicals into the IMC Chemical Group has created a substantial specialty chemical entity. While some of the markets are in some trouble now, we have the base for a chemical development that gives us reason to hope for a $4.00 per share earnings by the Chemical Group three to four years in the future.

In our industrial materials business, we have $38 million committed to promising prospects—new business. This business has grown from nothing in earnings only three years ago. Based on this solid accomplishment, further growth seems a reasonable expectation.

Our natural gas exploration, all in Louisiana, has as its initial objective annual replacement of annual usage. In the long run, we hope to be developing new reserves sufficient to give us other options in the petrochemical field.

Phosphate Discovery

In another area, we have announced discovery of a phosphate rock deposit in Ontario, Canada. At this date, we have drilled sufficient holes to indicate the possibility of a large body of ore of good quality. Thus economic feasibility now depends primarily upon the outcome of process and mining studies. We hope to have our preliminary views by December 31.

The importance of this property is in the location. Canada has no significant phosphate rock production, and the domestic market approaches 4 million tons annually, 50 percent of which could be reached easily from this site.

Just yesterday, the New Brunswick government announced that IMC had been selected to explore and develop a salt and potash discovery 30 miles from a deep water port. This deposit was a government find. Again, location is extremely important—30 miles from deep water. We are pleased; the selection of IMC to explore and develop this discovery represents very good marks for our company because we were in competition with 12 to 15 of the largest mining companies in the world.

In summary: it is fair to say that our raw material position is secure and getting better.

At the Annual Meeting last year I said that it was our objective to develop a 15 percent to 20 percent return on the shareholders' equity. Last year the return was 35 percent. This year somewhat more than 25 percent seems most likely, with the decline in the percentage attributable mainly to an increase in the equity base. This obviously is a good thing. With a growing equity base, I continue to think that 15 percent to 20 percent is right for this company. Over time, a return at this level would bring a good reward to the shareholders.

It has been a privilege and a pleasure to submit this operating report.

Questions and Answers

(Questions were answered by the President and other IMC Officers except as otherwise noted.)

Q. How often did the Board of Directors meet last year?
A. There were 10 regular meetings, three special meetings, and numerous committee meetings. Attendance at the Board meetings averaged 10 in a Board that consisted of 11 members for eight of the 12 months. Additionally, all of the Directors are here today.

Q. What is the Directors' compensation?
A. Outside Directors receive $10,000 a year, a figure that has not risen since 1961. Inside Directors receive no compensation.

Q. How many shares of IMC common stock does Mr. Lewis Gilbert own?
A. *(The question was answered by Mr. Martin S. Glotzer, a shareholder representing Mr. Gilbert at the Meeting.)* Mr. Gilbert owns 80 shares, and members of his family own another 376 shares. I own 133 shares, and Mrs. Wilma Soss, another proponent of Mr. Gilbert's proposal, owns 14 shares.

Q. The proxy statement for this meeting discusses a new Long-Term Performance Incentive Plan for Officers. Doesn't such a plan have to be approved by a vote of the shareholders?
A. No, because the Plan doesn't involve the use of newly issued common stock.

Q. The Annual Report shows that the weighted average number of common shares increased by 800,000 in fiscal 1975. What caused the increase?
A. The increase is the result of conversions by holders of our 4 Percent Debentures and Series Preferred Stock.

Q. What is the position of IMC's independent public accountants on a Securities and Exchange Commission proposal that a company's financial reports take into account the effect of inflation on historic plant and inventory costs, so that a possible overstatement of profits can be avoided?
A. *(The question was answered by Mr. George Carracio of Arthur Young & Company, independent public accountants.)* There are a number of viewpoints on how inflation should be measured. The position of our firm on "price level adjusted financial statements" is that such statements serve a useful purpose for shareholders and the investing public. However, our research and what we see happening in the economy suggest that these statements should initially be supplementary to the basic or historical financial statements.

Lawrence McMahon

Q. If the SEC proposal for calculating the effects of inflation had been in effect last year, would there have been a material difference in IMC's profit picture?
A. *(The question was answered by Mr. Carracio.)* That is very difficult to determine without a precise calculation. I would not like to hazard a guess which is not really based upon any formalized study with respect to the historical financial statements of IMC.

Q. Would there be a substantial increase in auditing costs if IMC's independent public accountants calculated the effect of inflation?

A. *(The question was answered by Mr. Carracio.)* I would hesitate to guess at the amount, but I think it would not be material.

Mrs. Gertrude Wexler

Q. What were the auditing costs of the independent public accountants in fiscal 1975?

A. The fee was $526,000 for the audit and $87,000 for other work during the year.

Q. Did IMC make any political contributions in Canada in the last year?

A. Yes. Last year was an election year in Canada. IMC is an important part of the Canadian scene, and we therefore contributed $10,000 to each of two political parties. These contributions were permitted under Canadian law, and we would expect to continue making such contributions as a matter of good citizenship.

Q. What tests have the independent public accountants instituted to see that IMC doesn't make political contributions in places where they are illegal?

A. *(The question was answered by Mr. Carracio.)* During the course of our audit, nothing came to our attention which indicated in any way that any illegal political contributions have been made by the Corporation.

Q. Has IMC considered the formation of a political action committee as a corporation, which can now be done legally under the federal election law of 1974?

A. We took a pretty good look at the possibility and decided against doing anything at present.

Q. What plans does the company have for issuing the new Second Series Preferred Stock which the shareholders have authorized today?

A. We presently have no definitive plans to issue the new Second Series Preferred for any specific purpose, but the Board of Directors believes it is in the best interests of the company to create this new stock to meet possible contingencies and opportunities for which the issuance of shares may be advisable.

Q. Are you going to come with a stock offering to your shareholders to raise additional capital, as American Telephone has done in the past?

A. We have no plans at all for any equity financing of that kind.

Q. Does IMC do any business with Israel or the Arab states?

A. We are agent for some products produced by Israel, and we have been handling a goodly amount of tonnages out of that country. This has resulted in a blacklist situation, but the blacklisting hasn't been an aggravation. It just exists.

Q. In the slide presentation there was mention of an IMC brand of growth-promoting animal implant called RALGRO. Now that there is a proposal in Congress which would restrict the use of a non-IMC growth-promoting product which is in competition with RALGRO, is it possible for sales of RALGRO to increase?

A. If this proposal is enacted, it seems fair to say that RALGRO sales would probably increase. RALGRO is not made from the same materials as the other product, and when properly used it doesn't have any residual impact.

Q. Can you tell us something about IMC's capital expenditures program for fiscal 1976, and how you expect to finance the program?

A. The program will amount to about $180 million, and in all probability there will be some debt financing. The debt will relate primarily to working capital, which will have to increase in reflection of our increased sales volume.

George Carracio

Q. What is IMC's policy and philosophy on dividends?

A. Dividends are a matter for the Board of Directors to determine, and the Board considers dividend action every quarter. Last year the dividend was increased three times, with payment dates for these increases in the first, second, and fourth quarters of our fiscal year.

Q. Since your last cash dividend increase was in the fourth quarter of fiscal 1975, would it be logical to preclude any stock dividend or stock split prior to the fourth quarter of this year?

A. Stock distributions of this sort are also a matter for the Board of Directors to determine. In general, it could be pointed out that stock distributions normally come at the time a dividend adjustment is made, in order for the stock distribution to have any merit.

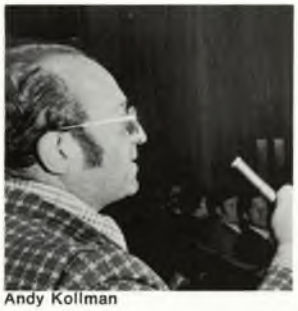
Bror Carlson

Q. Some large phosphate producers have formed an export marketing association called Phoschem. Would you comment on the business significance of this association, and on how the association will operate?

A. Phoschem stands for Phosphate Chemicals Export Association. There is a U. S. law, the Webb-Pomerene Act, which permits companies in an industry to form an association to operate as the agent of its members for their export sales. These associations exist in several industries, and Phoschem has been formed by a number of producers of phosphate chemicals, including IMC, to make export sales of their products on their behalf. The Webb-Pomerene Act is an exception to the antitrust laws in that it recognizes the need for a U. S. industry to band together to compete in foreign markets, where you encounter cartels.

Q. IMC's most recent acquisition, that of Commercial Solvents Corporation, was essentially a cash acquisition. Can this approach be interpreted as a new policy calling for any future acquisitions to be made for cash rather than by stock transfer?

A. Aside from relatively minor opportunities that may arise in extending our present lines of business, the only acquisition area we're spending any time on today is metallurgical coal, which would fit into our industrial materials business as well as into our mining and marketing knowledge. But we're not alone in looking for coal, and high asking prices coupled with a scarcity of suitable properties don't make us very optimistic. So in the case of extensions of our existing businesses we're not talking cash or stock that amounts to much. In the case of coal, if a real opportunity were to come along, we would recommend to the Board of Directors either cash or stock.



Andy Kollman

Q. I noticed in the Annual Report that IMC's potash shipments decreased by 3 percent in 1975. Was that decrease a function of Canadian regulations, or of the market?

A. The decrease was more a function of the market than of the regulations—actual deliveries to the farmers were probably higher than implied by miners' deliveries to finished fertilizer manufacturers, but the manufacturers sold a lot from inventory. As a result, miners' shipments to the manufacturers were reduced.

Irving Haass

Q. An economic report published by a Federal Reserve Bank last May said fertilizer prices peaked in 1974 and early 1975, and are now expected to begin a decline which by the late 1970's will bring fertilizer/crop price relationships back to more traditional levels. But the bank says that over the long term an upward climb in fertilizer prices will likely prevail as forces of supply and demand begin to balance. Do you agree with this analysis?

A. Fertilizer materials in general are currently going through a transitional period, but any thought that fertilizer prices are going to return to "traditional levels" is out of the question. The ever-present pressure of inflation and its effect on costs seems to be often overlooked in price projections. But, as discussed earlier (see page 7), prices will have to go much higher than they are now if a new mine or plant is to be built and profitably operated. Either the price will go up, or the operations will not be built. This fact precludes a return to "traditional price levels," although of course there will probably be a moderation of the extremes that have existed over the last three years.

Q. The bank report also says that if all the nitrogen-producing facilities scheduled to be built in the world between now and 1980 are completed, nitrogen production capacity will exceed projected demand and will likely result in a surplus of nitrogen fertilizer. Have you any comment on that statement?

A. There have been a lot of announcements on building ammonia (nitrogen) plants, but the announcements are being cancelled as fast as flies dropping in the fall. We would say the bank's report on nitrogen is terribly mistaken.

Q. The bank also says that phosphate prices are likely to be under downward pressure for the remainder of the 1970's, although production costs will be going up. Do you agree with that?

A. Our views on phosphate—both rock and concentrated phosphates—were thoroughly discussed a little earlier today (see page 6).

Q. On potash, the bank says that rising prices for Canadian product and government restrictions may make it profitable to continue operations in the U. S. mines for a longer period than previously anticipated—and that potash prices may continue to rise slowly for the remainder of this decade. Do you agree with this?

A. As we indicated earlier, the potash outlook hinges on what happens in Saskatchewan (see page 8).

Q. Have you started the 40 percent expansion IMC has announced for its New Mexico potash operations?

A. Engineering studies on this project are continuing.

Q. Does IMC still plan to bring its new ammonia plant on stream in 1977?

A. Yes—early 1977.

Q. Why did this year's Annual Report show a five-year comparison of financial statistics rather than a 10-year comparison?

A. We're such a totally different company today than we were 10 years ago that it would be very difficult to go that far back in time and adjust the figures from year to year in any meaningful way.

Dan McCarthy

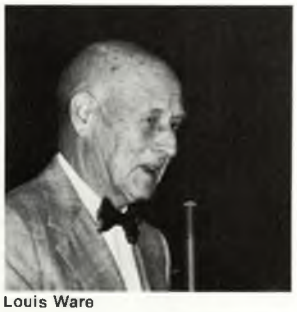
Q. With the wonderful progress that IMC has been making, is there anything the company can do to increase the price/earnings ratio of its common stock?

A. In the area of stock prices there's no way to lift yourselves by your bootstraps. Our stock moves with the fertilizer industry's stocks. We are explaining our business as vigorously as we know how, but minds are not going to be changed except by facts and figures over time. That does not mean we are going to stop trying; we will never stop trying.

Comments and Suggestions

I have just been bursting to say something. I want to add to the appreciation that has been expressed by others here today for the awfully good year we've had. The results reflect a very good job done by the management team.

When I became President of IMC back in 1939 the company was called International Agricultural Corporation. One of the first things I did was change the name to one that I thought would be broad enough for unlimited growth: International Minerals & Chemical Corporation. At that time there was no other company with the words "minerals" and "chemical" in its name, and we were mainly miners. But now we have grown until we are truly international, and are really in the minerals and chemical business. So our title describes our business, and I like that and I think our stockholders like that.



Louis Ware

There are many good things in our Corporation, and among them are our Directors. I know most of them closely, and they are all very fine men. I know there will never be anything funny done in the Corporation—it will always be clean and good. I commend the Directors for that. It is true that we have given them broad latitude in how to spend the new shares we have authorized today, but I know they will use the shares where they think it is good for the company. I hope they go easy and sit on the shares for a while. We now have a company that's big. It's successful, and it's in a field that is very, very necessary in meeting the world's needs. So let's be cautious about acquisitions. Acquisitions carry risks, and acquisitions come expensively today. I think we have a period ahead where we should absorb the recent acquisitons we've had. So sit on those shares for a while—but of course stock dividends are always good.

I also want to express appreciation for the fact that there are so many men still with the company that I knew and worked with. Good people stay with this company, and that speaks well for the company.

And I want to compliment the President on his remarks today, frankly stating the pluses and the minuses. I am sure stockholders like that. —Louis Ware

Robert Van Ausdal

I want to congratulate those who have made the decisions that have kept us in the agricultural business. I am a member of the World Futurist Society, and the one thing all of our members agree on is world hunger and the need for food production. —Robert L. Van Ausdal

I would like to see more meaningful pictures in the Annual Report. Some of them this year were pretty —that's fine for artistic purposes, but white-coated scientists looking in test tubes are a dime a dozen. IMC reclaimed 1,470 acres of mined-out land last year, and a reclamation picture would have been good in the Annual Report. —Blaine F. Newman

Martin Glotzer

I'm here as a shareholder and also as a representative of Mr. Lewis D. Gilbert of New York City and members of his family. I want the record to indicate Mr. Gilbert's protest against the stagger-system election of Directors and the lack of cumulative voting for Directors.—Martin S. Glotzer

Joseph Siegman

Mr. Gilbert's representative here has cited a Securities and Exchange Commission advisory report in support of his proposal for cumulative voting for Directors. But I notice that the advisory report was in connection with a company in reorganization under the Bankruptcy Act.

—Joseph M. Siegman

Mr. Gilbert feels that in an acquisition the shareholders of an acquired company should be given a choice—either cash for their stock, or an exchange of stock. IMC acquired Commercial Solvents for cash and did not offer Commercial Solvents' shareholders an opportunity to exchange their stock for IMC stock. Mr. Gilbert protests this lack of choice. —Mr. Glotzer

It seems obvious to me that the 30 million additional common shares authorized today are to be used for either acquisitions or a stock split. In the case of an acquisition, I hope the company doesn't goof, as it has a couple of times in the past. —Mr. Newman

Blaine Newman

I want to compliment you and the Directors on the outstanding performance of our stock in this year of general recession, and on the increased dividends we have received. —Mrs. Bessie Silverman

Mrs. Bessie Silverman

I feel that as long as the dividends keep getting increased, there is possibly room for an increase in compensation for the Directors. —Mr. Glotzer

The Gilbert family has owned shares in IMC for many, many years, but I would like to say we feel there is no distinction between a recent shareholder and a shareholder of many years' standing, even as we feel there is no distinction between a small shareholder and a large shareholder. All shares stand equally. —Mr. Glotzer

Formal Business of the Meeting

More than 76 percent of the outstanding shares of the Corporation's stock entitled to vote was represented at the sixty-sixth Annual Meeting of Shareholders, convened at the First Chicago Center in The First National Bank of Chicago in Chicago, Illinois, on October 1, 1975.

Represented at the Meeting, in person or by proxy, was a total of 12,942,269 shares, consisting of 12,866,139 shares of Common Stock and 76,130 shares of Preferred Stock of the 16,864,968 Common and Preferred Shares outstanding and entitled to vote.

Changes in Authorized Capital Stock

A resolution amending the Certificate of Incorporation to increase from 20,000,000 to 50,000,000 the authorized number of shares of Common Stock, par value $5 per share, which the Corporation shall have authority to issue was adopted by the affirmative vote of an aggregate of 12,215,063 shares of Common and Preferred Stock. A total of 220,936 shares of Common and Preferred Stock was voted against the resolution.

A resolution amending the Certificate of Incorporation to create a new class of stock of the Corporation designated as Second Series Preferred Stock, consisting of 3,000,000 shares, par value $1 per share, and to reduce the number of authorized shares of Series Preferred Stock, par value $100 per share, from 1,000,000 to 192,743, was adopted by the affirmative vote of an aggregate of 11,089,312 shares of Common and Preferred Stock. A total of 241,458 shares of Common and Preferred Stock was voted against the resolution.

Increase in Number of Directors

A resolution amending the Certificate of Incorporation and the By-Laws to increase the size of the Board of Directors from not less than nine nor more than 12 to not less than 12 nor more than 16 was adopted by the affirmative vote of an aggregate of 12,304,390 shares of Common and Preferred Stock. A total of 300,168 shares of Common and Preferred Stock was voted against the resolution.

Election of Directors

The nine nominees listed in the Proxy Statement were elected, each receiving a total of 12,407,347 votes. This brought the number of Directors to 16, the newly-authorized maximum.

Elected for terms expiring at the Corporation's Annual Meeting in 1978 were:

Chester Baylis, Jr., Director, Bankers Trust New York Corporation.

Edward F. Blettner, Honorary Director, The First National Bank of Chicago.

Richard A. Lenon, President and Chief Executive Officer, International Minerals & Chemical Corporation.

William S. Leonhardt, Executive Vice President, International Minerals & Chemical Corporation.

Jeremiah Milbank, President of Cypress Woods Corporation.

Thomas H. Roberts, Jr., President and Board Chairman, DeKalb AgResearch, Incorporated.

Elected for terms expiring at the Corporation's Annual Meeting in 1977 were:

Anthony E. Cascino, Executive Vice President, International Minerals & Chemical Corporation.

Robert C. Wheeler, Senior Vice President, International Minerals & Chemical Corporation.

Elected to a term expiring at the Corporation's Annual Meeting in 1976 was:

George D. Kennedy, Executive Vice President, International Minerals & Chemical Corporation.

Election of Auditors

Arthur Young & Company, independent public accountants, were re-elected auditors of the Corporation for the fiscal year ending June 30, 1976, by the affirmative vote of an aggregate of 12,253,523 shares of Common and Preferred Stock. A total of 38,482 shares of Common and Preferred Stock was voted against the resolution.

Cumulative Voting for Directors

A resolution proposed by Lewis D. Gilbert, John J. Gilbert, and Wilma Soss, all of New York City, and by Martin Glotzer, of Chicago, to provide for the election of Directors by cumulative voting was defeated, with the holders of an aggregate of 10,655,117 shares of Common and Preferred Stock voting against the resolution. A total of 514,106 shares of Common and Preferred Stock was voted by 1,086 shareholders in favor of the resolution. The votes in favor of the resolution were 4.6 percent of the total votes cast.

The Board of Directors held its annual organization meeting immediately after the Annual Meeting of Shareholders and elected the following Officers of the Corporation:

Richard A. Lenon, *President and Chief Executive Officer.*

Anthony E. Cascino, *Executive Vice President—Agriculture.*

George D. Kennedy, *Executive Vice President—Industry and Business Development.*

William S. Leonhardt, *Executive Vice President—Chemicals.*

Marvin B. Gillis, *Senior Vice President—Agricultural Operations.*

George B. Howell, *Senior Vice President—Industrial Materials.*

Sidney T. Keel, *Senior Vice President—Agricultural Marketing.*

Julian M. Sobin, *Senior Vice President—Chemicals.*

Robert C. Wheeler, *Senior Vice President.*

Harry L. Carroll, *Vice President—Domestic Agricultural Marketing.*

Judson H. Drewry, *Vice President—Florida Operations.*

James T. Gibson, Jr., *Vice President and Treasurer.*

Anton F. Kuzdas, *Vice President—Operations, Industrial Materials.*

Donald E. Phillips, *Vice President—Administration, Agricultural Operations.*

Lester G. Sobin, *Vice President—Chemicals.*

John F. Sonderegger, *Vice President and Controller.*

John R. Taylor, *Vice President, Secretary and General Counsel.*

Alan B. Wagner, *Vice President—Administration, Industrial Materials.*

Thaddeus R. Bialek, *Assistant Controller.*

Harry H. Book, *Assistant Secretary.*

Donald G. Brady, *Assistant Controller.*

Nicolaus Bruns, Jr., *Assistant Secretary.*

Darrell L. Feaker, *Assistant Treasurer.*

John R Taylor
Secretary

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